NOVA

NOVA Corporation of Alberta

NOTICE OF ANNUAL AND SPECIAL MEETING

NOTICE is hereby given that the Annual and Special Meeting (the "Meeting") of NOVA Corporation of Alberta (the "Corporation") will be held at The Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta on Tuesday, April 25, 1989 at 10:30 o'clock in the forenoon, Calgary time, for the following purposes, each of which is described in more detail in the accompanying Information Circular - Proxy Statement which is incorporated by reference herein, namely:

1. to approve a special resolution for the amendment of the Articles of Continuance of the Corporation and an ordinary resolution for the amendment of the General By-law of the Corporation, both to give effect to a proposal to ultimately permit the election of Directors of the Corporation on a rotating basis;
2. to elect certain Directors as provided in the NOVA Corporation of Alberta Act;
3. to reappoint Clarkson Gordon as the Auditors of the Corporation;
4. to approve an increase in the number of common shares reserved for options pursuant to the Corporation's employee incentive stock option plan;
5. to receive the consolidated financial statements of the Corporation for the year ended December 31, 1988 and the reports of the Directors and the Auditors; and
6. to transact such other business as may properly be brought before the Meeting.

The close of business on March 15, 1989 is the record date for the determination of holders of common shares entitled to receive notice of, and to attend and vote at, the Meeting. Any transferee or person acquiring common shares after such date may, on proof of ownership of common shares, demand not later than 10 days before the Meeting that his name be included in the list of persons entitled to attend and vote at the Meeting.

By Order of the Board of Directors

(Signed) JACK S. MUSTOE
Vice President, General Counsel and
Corporate Secretary

Calgary, Alberta
March 13, 1989

TO: Holders of Common Shares

If you are unable to attend the Meeting in person, please complete and sign the enclosed form of proxy and forward it in the enclosed envelope to the Corporate Secretary of the Corporation, c/o National Trust Company, 150 Toronto Dominion Square, Calgary, Alberta T2P 9Z9, to reach that address no later than 5:00 o'clock in the afternoon, Calgary time, on Monday, April 24, 1989.

NOVA

NOVA Corporation of Alberta

INFORMATION CIRCULAR - PROXY STATEMENT

GENERAL

This Information Circular - Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors and the management of NOVA Corporation of Alberta (the "Corporation") for use at the Annual and Special Meeting (the "Meeting") to be held on Tuesday, April 25, 1989 at 10:30 in the forenoon, Calgary time, at The Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta and at any adjournment thereof. Enclosed is a form of proxy for use at the Meeting. A copy of the Annual Report, which includes the Consolidated Financial Statements of the Corporation for the fiscal year ended December 31, 1988 to be presented to the Meeting, is also enclosed. **Copies of the Corporation's Annual Information Form, as filed with Canadian provincial securities commissions, and Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission, in each case for the fiscal year ended December 31, 1988 may be obtained without charge by writing to the Corporation to the attention of its Corporate Secretary, P.O. Box 2535, Postal Station M, Calgary, Alberta T2P 2M6.**

Pursuant to the General By-law of the Corporation, instruments of proxy must be received by the Corporate Secretary of the Corporation, c/o National Trust Company, 150 Toronto Dominion Square, Calgary, Alberta T2P 9Z9 no later than 5:00 o'clock in the afternoon, Calgary time, on Monday, April 24, 1989.

The approximate date on which this Information Circular - Proxy Statement and enclosed form of proxy are expected to be first mailed to holders of common shares of the Corporation (the "Common Shares") is March 16, 1989.

All dollar figures used herein are in Canadian dollars unless otherwise indicated. On March 10, 1989 the Bank of Canada noon rate for U.S. Dollars was reported as Cdn. $1.00 = U.S. $1.1987.

REVOCABILITY OF PROXY

An instrument of proxy may be revoked by the person giving it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or his attorney authorized in writing and deposited either at the head office of the Corporation at 801 Seventh Avenue S.W., Calgary, Alberta, Canada, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or with the chairman of the Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits the proxy is revoked.

PERSONS MAKING THE SOLICITATION

This solicitation of proxies is made by and on behalf of the Board of Directors and the management of the Corporation and the costs thereof will be borne by the Corporation. It is expected that the solicitation will be primarily by mail. Proxies may also be solicited by personal interviews, telephone or other telecommunication device, by directors, officers and employees of the Corporation, who will not be specifically remunerated therefor.

No person is authorized to give any information or to make any representations other than those contained in this Information Circular - Proxy Statement and, if given or made, such information or representations must not be relied upon as having been authorized to be given or made.

EXERCISE OF DISCRETION

The Common Shares represented by the enclosed form of proxy will be voted or withheld from voting in accordance with the instructions of the shareholder. **In the absence of such specification, such Common Shares will be voted for the amendments to the Corporation's Articles and General By-law to permit election of Directors on a rotating basis, for the election of each of the Directors named on the form of proxy, for the reappointment of Clarkson Gordon as auditors and for the increase of Common Shares authorized for issuance pursuant to the Employee Incentive Stock Option Plan (1982), as amended (the "Stock Option Plan") as described herein.** The persons appointed under the enclosed form of proxy are conferred with discretionary authority with respect to amendments or variations of those matters specified in the proxy and Notice of Meeting and with respect to any other matters which may properly be brought before the Meeting or any adjournment thereof. At the time of printing this Information Circular - Proxy Statement, the Board of Directors and the management of the Corporation know of no such amendment, variation, or other matter.

COMMON SHARES AND PRINCIPAL HOLDERS THEREOF

As of February 24, 1989, the Corporation had outstanding 245,510,148 Common Shares. Each Common Share confers upon the holder the right to one vote for the purpose of electing twelve Directors and of voting on any matters that may properly be brought before the Meeting except that the NOVA Corporation of Alberta Act (the "NOVA Act") provides that no person alone or in concert with others may vote more than 15% of the outstanding voting shares.

The close of business on March 15, 1989 is the record date for the determination of holders of Common Shares who are entitled to notice of, and to attend and vote at, the Meeting. Any transferee or person acquiring Common Shares after such date may, on proof of ownership of Common Shares, demand not later than 10 days before the Meeting that his name be included in the list of persons entitled to attend and vote at the Meeting.

As at February 24, 1989, no person or company, to the knowledge of the Directors or senior officers of the Corporation, beneficially owned, directly or indirectly, Common Shares carrying more than 5% of the voting rights attached to all outstanding Common Shares of the Corporation. The Alberta Heritage Savings Trust Fund, as holder of the 1987 Adjustable Rate Convertible Subordinated Debentures, could become the owner of 14,018,692 Common Shares, being approximately 5.7% of the Corporation's outstanding Common Shares as of February 24, 1989, if it converts all of such Debentures to Common Shares, which it is permitted at any time to do pursuant to the terms of such Debentures.

AMENDMENT TO CORPORATION'S ARTICLES AND GENERAL BY-LAW

Subject to the provisions of the Corporation's Articles relating to minimum and maximum numbers of Directors, the NOVA Act provides that four of the Directors must be residents of Alberta appointed as Directors by the Lieutenant Governor in Council to hold office as Directors for the respective terms specified by the Lieutenant Governor in Council. The government-appointed Directors are referred to as "appointed Directors". The Directors elected by the shareholders are referred to as "elected Directors". The NOVA Act imposes certain additional restrictions on the qualifications of nominees for elected Directors.

The Board of Directors has approved a proposal for the "staggering" of the terms of office of the elected Directors of the Corporation whereby, ultimately, approximately one-third of the Directors eligible for election will be elected each year (the "Proposal"). Each such group of Directors will normally be elected for a three year term, so that at any given time the Board of Directors will be composed of the full complement of Directors. In the event of an elected Director ceasing to be a Director prior to the expiration of his term of office, the individual appointed or elected as a director to fill such vacancy would normally retain such office for the unexpired term of his predecessor.

In order to implement the Proposal, certain amendments to the Articles of Continuance of the Corporation and the Corporation's General By-law are necessary, as described below. The Proposal, if approved by the shareholders, is expected to be implemented immediately by the Corporation, although the Directors have reserved the right, in their discretion, to revoke the special and ordinary resolutions pertaining to the Proposal before they are acted upon without further recourse to the shareholders.

Paragraph 9 of the Corporation's Articles of Continuance must be amended to include a provision to the effect set forth below. Such an amendment to the Corporation's Articles must be approved by a special resolution of shareholders. In order to be effective, a special resolution must be approved by the affirmative vote of not less than 66⅔% of the votes of the holders of Common Shares who, if entitled to do so, vote in person or by proxy on this matter at the Meeting. If the special resolution is approved by the required vote, Articles of Amendment must be filed with the Alberta Corporate Registry in order to make the amendment effective.

The text of such special resolution to be considered at the Meeting is as follows:

"BE IT RESOLVED as a special resolution of the holders of Common Shares of NOVA Corporation of Alberta (the "Corporation") that:

1. Subject to shareholder confirmation of amendments to Section 2.03 of the Corporation's General By-law in the manner described in the Corporation's Information Circular - Proxy Statement pertaining to the 1989 Annual and Special Meeting of the Corporation to be held on April 25, 1989, paragraph 9 of the Articles of the Corporation be amended by the addition of the following:

'Any Director elected in accordance with the Business Corporations Act (Alberta) may be elected for a term expiring:

(a) at the close of the first annual meeting of shareholders following his election,
(b) at the close of the second annual meeting of shareholders following his election, or
(c) at the close of the third annual meeting of shareholders following his election,

all as determined by the shareholders in accordance with the by-laws of the Corporation.'

2. The Board of Directors and proper officers of the Corporation be authorized to do all such things and execute all such documents and instruments as may be necessary or desirable to give effect to this special resolution.

3. The Board of Directors of the Corporation may in their discretion revoke this special resolution before it is implemented, without further approval from the shareholders."

The Board of Directors has, subject to shareholder confirmation, amended the Corporation's General By-law by an amending by-law (the "Amending By-law") which provides as follows:

"Subject to the filing of the Articles of Amendment necessary to permit the election of Directors of NOVA Corporation of Alberta (the "Corporation") on a rotating basis, Section 2.03 of the Corporation's General By-law be deleted and the following to be substituted therefor:

'2.03 Appointed Directors — Appointed Directors are appointed by the Lieutenant Governor in Council of the Province of Alberta and shall hold office pursuant to the provisions of the NOVA Act.

2.03.1 Elected Directors

(a) At each annual meeting of shareholders all the elected Directors whose term of office expires at the close of such annual meeting shall retire but, if qualified, shall be eligible for re-election.

(b) The number of Directors to be elected at any such annual meeting of shareholders shall be the number of elected Directors then retiring unless the Board otherwise determines as provided in the NOVA Act.

(c) Any Director elected at a meeting of shareholders shall have been elected for a term of office expiring at the close of the first, second or third annual meetings after his election. The term of office of each Director elected at a meeting shall be specified in the ordinary resolution of the shareholders electing such Director at such meeting and failing any such specification, such Director shall be deemed to have been elected for a term expiring at the close of the third annual meeting after his election. In any notice of a meeting of shareholders called for one or more purposes, one of which is the election of Directors, and in all proxy circulars, information circulars or other proxy solicitation material sent to shareholders in connection with such a meeting, the term of office proposed for any nominee for election as Director shall be set forth therein although failure to so specify the proposed term of office shall not invalidate the election of any Director at that meeting.' "

Holders of Common Shares must confirm and approve the Amending By-law at the Meeting by an ordinary resolution in order for it to remain in force. An ordinary resolution requires the affirmative vote of a majority of the votes of the holders of Common Shares who, if entitled to do so, vote in person or by proxy on this matter at the Meeting.

Under the existing Articles and General By-Law a majority of the Board of Directors may be changed by a majority of the shareholders at any annual meeting, since the General By-Law presently provides for election of all elected Directors annually. A result of the Proposal becoming effective will be that at least two annual meetings of shareholders, instead of one, or a special meeting of shareholders called for the purpose of removing elected Directors, would be required to effect a change in control of the Board of Directors. Unless an annual meeting is also designated as a special meeting at which a resolution for the removal of directors may be properly considered, the holders of a majority of the outstanding voting securities of the Corporation voting generally on the election of Directors at the annual meeting would not be able to change a majority of the Board of Directors. Any meeting of shareholders at which business is to be conducted other than the election of Directors, appointment of auditors and receipt of financial statements is required to be designated as a special meeting and the notice calling the meeting is required to set forth the nature of the business to be conducted at such a meeting in sufficient detail to permit the shareholder to form a reasoned judgment on that business. However, any elected Director may be removed without cause at a special meeting by the affirmative vote of a majority of the votes of holders of voting securities who, if entitled to do so, vote in person or by proxy on that matter. The holders of not less than 5% of the issued Common Shares may requisition the Directors to call such a special meeting. These rights will not be affected by any of the proposed changes in the Corporation's Articles and General By-Law.

Many major corporations provide for the rotating election of their Directors. This form of election of Directors provides for continuity in the principles and policies advocated by the Board as the experience of Directors who have served for some period can thereby be passed on to new Board members on a regular basis. However, the election of Directors on a rotating basis may be perceived as an obstacle to effecting a change of control of the Board of Directors. Management of the Corporation is of the view that the proposed changes to the Corporation's Articles and General By-Law do not pose such an obstacle due to the continued ability of shareholders to remove any or all of the elected Directors at a special meeting. More importantly, any inconvenience caused by the proposed changes in the Corporation's Articles and General By-Law from the perspective of a person or group of persons wishing to acquire control of the Corporation is not material in light of the existing restrictions in the

Corporation's Articles and the NOVA Act, which provide, in effect, that no person alone or in concert with others may vote more than 15% of the outstanding voting shares of the Corporation.

ELECTION OF DIRECTORS

The NOVA Act provides for a Board of Directors consisting of a minimum of fifteen Directors and a maximum of twenty Directors. The number of Directors presently in office is eighteen, including those appointed by the Lieutenant Governor in Council as described below. The information given herein with respect to each of the Directors is based upon information furnished to the Corporation by each Director.

Beneficial Ownership of Securities

The table below sets forth as at February 24, 1989 information with respect to beneficial ownership of shares of the Corporation, including options to acquire such shares exercisable within 65 days of February 24, 1989, by each Director of the Corporation and by all Directors and officers of the Corporation, as a group, as provided to the Corporation by such persons.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(4)		Title of Class
John Black Aird	5,000	(3)	Common Shares
Sidney Robert Blair	1,187,500	(2)	Common Shares
James Henry Butler	462,003	(2)	Common Shares
Arthur James Edward Child	20,000		Common Shares
Ronald Borden Coleman	1,000		Common Shares
William Harold Comrie	10,000		Common Shares
Willard Zebedee Estey	Nil		
John Joseph Healy	1,200		Common Shares
Harley Norman Hotchkiss	18,000		Common Shares
William Arnold Howard	8,175	(4)	Common Shares
	400		7.60% First Preferred Shares
Peter Logie Parkin Macdonnell	7,500	(4)	Common Shares
Frederick Allan McKinnon	5,662		Common Shares
Robert Alastair Morton	Nil		
Harold Phillip Milavsky	10,240	(4)	Common Shares
Hugh John Sanders Pearson	24,226		Common Shares
Robert Lorne Pierce	868,151	(4)	Common Shares
Daryl Kenneth Seaman	102,361		Common Shares
William George Wilson	346,352	(2)	Common Shares
All Directors and officers as a group (36 persons, including those listed herein)	4,194,409		Common Shares
	400		7.60% First Preferred Shares

Notes:

(1) Each Director's holdings represents less than one percent of the outstanding shares of such class and all Directors and officers of the Corporation, as a group, own approximately 1.7 percent of the outstanding Common Shares.

(2) Includes for Messrs. Blair, Butler, Wilson and 18 other officers: 987,500; 375,000; 219,500 and 949,500 Common Shares, respectively, which may be acquired pursuant to the exercise of options within 65 days of February 24, 1989 which options were issued to such persons pursuant to the Stock Option Plan.

(3) These 5,000 Common Shares are held by Housco Investments Limited, a company owned by the spouse of the Hon. J.B. Aird. The Hon. J.B. Aird is Chairman of that company and exercises sole voting power over these shares but disclaims beneficial ownership thereof.

(4) Excludes for Messrs. Howard, Macdonnell, Milavsky and Pierce, each of whom may be deemed to have but disclaims beneficial ownership thereof: 5,067; 6,125; 150; and 1,110 Common Shares, respectively. The 5,067 Common Shares for Mr. Howard are held by certain of Mr. Howard's partners in the law firm of Howard, Mackie. The 6,125 Common Shares for Mr. Macdonnell are held by his spouse. The 150 Common Shares for Mr. Milavsky are held by his two daughters who do not reside in the same residence as Mr. Milavsky. The 1,110 Common Shares for Mr. Pierce are held among his brother, sister-in-law and son, none of whom resides in the same residence as Mr. Pierce. The foregoing respective associates of Messrs. Howard, Macdonnell, Milavsky and Pierce exercise sole voting and investment power over such Common Shares.

(5) The Corporation's pension plan is administered by a committee of employees, including certain officers of the Corporation, appointed by the Board of Directors of the Corporation. The foregoing information regarding the beneficial ownership of Common Shares of the Corporation by each Director does not include an aggregate of 1,118,071 Common Shares of the Corporation held by the trustee for such pension plan. In addition, the executive officers may be considered to have some control over the investment of monies held under the pension plans of certain of the Corporation's subsidiaries. The foregoing information does not include aggregates of 284,500 and 20,838 Common Shares of the Corporation held, respectively, by the pension plans of Polysar Limited and Foothills Pipelines (Yukon) Ltd.

Committees and Meetings of the Board of Directors

The Board of Directors of the Corporation has a Management Resources and Compensation Committee and an Audit Committee.

The Management Resources and Compensation Committee of the Board of Directors reviews recommendations for the appointment of persons to senior executive positions, considers terms of employment including with respect to compensation and recommends awards under stock option plans. The Management Resources and Compensation Committee is currently composed of Messrs. Aird, Blair, Comrie, Howard and Pearson (Chairman).

The Audit Committee of the Board of Directors meets with the Auditors of the Corporation and senior executives of the Corporation to review and inquire into matters affecting the financial reporting of the Corporation and to recommend to the Board of Directors the Auditors to be appointed. The Audit Committee is currently composed of Messrs. Coleman, Hotchkiss, Macdonnell (Chairman), McKinnon and Milavsky.

During the last fiscal year, January 1, 1988 to December 31, 1988, the Board of Directors of the Corporation held 14 meetings including regularly scheduled and special meetings, the Management Resources and Compensation Committee held five meetings and the Audit Committee held seven meetings. The following Directors attended fewer than 75 percent of the aggregate of (1) the total number of meetings of the Board of Directors (held during the period he has been a Director) and (2) the total number of meetings held by all committees of the Board on which he served (during the period that he served): W.H. Comrie and J.J. Healy. Mr. Comrie attended 13 of the 19 meetings held by the Board of Directors and the Management Resources and Compensation Committee. Mr. Healy attended 10 of the 14 meetings held by the Board of Directors.

Certain Relationships and Related Transactions

Certain Directors and executive officers of the Corporation have interests in transactions with the Corporation and its subsidiaries. Mr. W.A. Howard, a director of the Corporation, is a senior partner of

the law firm of Howard, Mackie which firm has provided and continues to provide legal services to the Corporation. Howard, Mackie has billed the Corporation, Husky Oil Ltd. and their respective subsidiaries an aggregate sum of approximately $3.5 million in respect of fees for services performed in 1988 which services were rendered in the ordinary course of business.

The Hon. J.B. Aird and Mr. P.L.P. Macdonnell, directors of the Corporation, are senior partners in the law firms of Aird & Berlis and Milner & Steer, respectively, which firms have provided and continue to provide legal services to the Corporation.

Nominees

In accordance with the NOVA Act, the Board of Directors has determined that twelve Directors are to be elected at the Meeting by the holders of Common Shares. Subject to the approval by the shareholders of the amendments to the Corporation's Articles of Continuance and General By-law discussed above (providing in effect for the future election of Directors on a rotating basis), the term of office proposed for each of such nominees is as set forth below or until their successors are duly elected or appointed:

For a term of 1 year expiring at the Corporation's 1990 Annual Meeting

W.Z. Estey
P.L.P. Macdonnell
R.A. Morton
W.G. Wilson

For a term of 2 years expiring at the Corporation's 1991 Annual Meeting

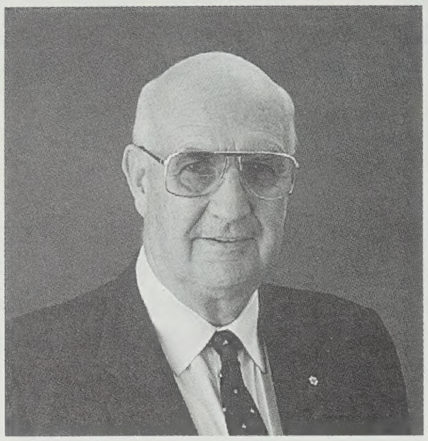
J.H. Butler
R.B. Coleman
H.N. Hotchkiss
R.L. Pierce

For a term of 3 years expiring at the Corporation's 1992 Annual Meeting

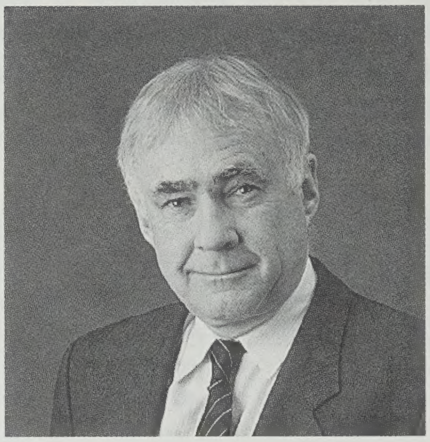
J.B. Aird
S.R. Blair
W.A. Howard
H.J.S. Pearson

If the shareholders do not approve the amendment to the Articles and General By-Law discussed above each of the above Directors would be nominated for election for a one year term.

Each such person proposed to be nominated for election by the holders of Common Shares is currently a Director of the Corporation. Set forth hereafter is the age (as of February 24, 1989), and principal occupation (including all positions currently held with the Corporation) of each such nominee, the period during which each has served as a Director of the Corporation and certain other directorships held by each such Director (including directorships of companies which have a class of securities registered pursuant to Section 12 of the United States Securities Exchange Act of 1934 (the "Exchange Act") or are subject to Section 15 of the Exchange Act). Each of such Directors has held his present principal occupation or executive position with the same or associated firms for the past five years except as set forth below. Proxies in favour of the persons named in the accompanying form of proxy will be voted in favour of the election as Directors of the twelve persons named above for the respective terms of office set out above. The Board of Directors and management do not contemplate that any of the nominees will be unable to serve as a Director, but if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion.

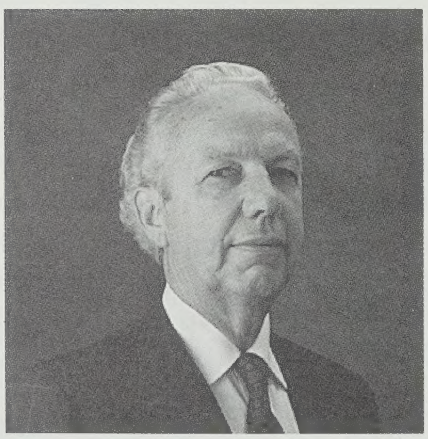


Hon. John B. Aird (65) has been a Director of the Corporation since August 26, 1988. He is a senior partner in the law firm of Aird & Berlis in the City of Toronto and resides in such city. In 1986 the Hon. J.B. Aird was appointed Chancellor of the University of Toronto, and between 1980-1985 he served as the Lieutenant Governor of the Province of Ontario. The Hon. J.B. Aird is the Chairman of the Board of the Consumers' Gas Company Ltd., a gas utility company, and also serves on the Boards of Power Corporation of Canada, Economic Investment Trust Limited, INCO Limited, The Molson Companies Limited, Reed Stenhouse Companies Limited, Mercedes - Benz Canada Inc., Algoma Central Railway, Housco Investments Limited, Jeam & Co. Limited, Lajahak Investments Limited, Rousseau Management Limited and Sherwood Inn, Limited. He also serves on the Boards of certain subsidiaries of the Corporation.



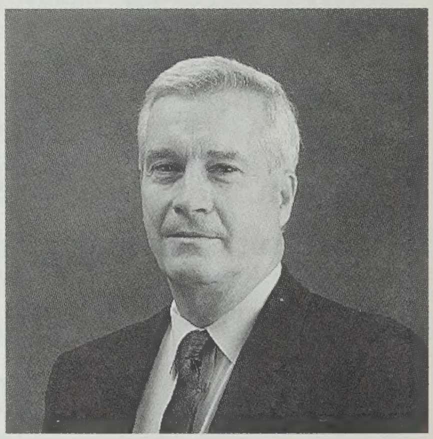
S. Robert Blair (59) served initially as a non-management Director of the Corporation during the 1960's, then entered full-time management of the Corporation in December 1969. He is Chairman and Chief Executive Officer of the Corporation and resides in the City of Calgary. He also serves on the Board of Hutchison Whampoa LImited.

James H. Butler (57) has been a Director of the Corporation since January 22, 1988. He is President of the Corporation and resides in the City of Calgary. Prior to April 1988, he served as Executive Vice President of the Corporation. Prior to April 1986 Mr. Butler served as Vice President, International Trade, Petrochemical Division of Mobil Oil Company and prior to January 1986 he was Vice President, Business Development and Joint Interests of that company.



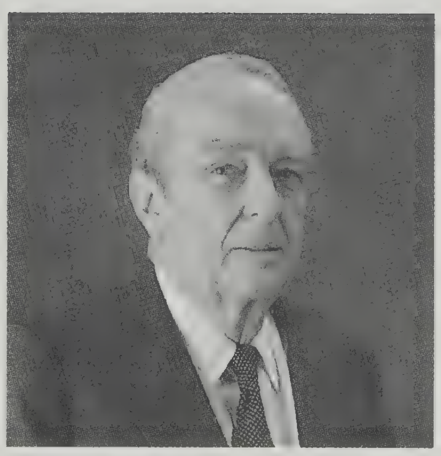
Ronald B. Coleman (56) has been a Director of the Corporation since June 18, 1987. He resides in the City of Calgary and is President of R.B. Coleman Consulting Co. Ltd., a company engaged in oil and gas consulting. He also is President and a director of Domequity Growth & Calgary Ltd. and serves on the Boards of The Maritime Life Assurance Company and Nova Scotia Resources Ltd.

Hon. Willard Z. Estey (69) has been a Director of the Corporation since August 26, 1988. He resides in the City of Toronto and is Deputy Chairman of Central Capital Corporation. He is counsel to the law firm of McCarthy & McCarthy and to Cablecasting Limited and has faculty appointments with the Law Faculty at the University of Toronto and with Osgoode Hall Law School, York University. Prior to April, 1988 he was a Justice of the Supreme Court of Canada. He also serves on the Boards of Central Guaranty Trustco, Central Capital Management Inc., Bramalea Limited and certain subsidiaries of the Corporation.



Harley N. Hotchkiss (61) has been a Director of the Corporation since May 11, 1979. He resides in the City of Calgary and is President of Spartan Resources Ltd. and other private companies investing in oil and gas, real estate and agriculture. He also serves on the Boards of Conwest Exploration Company Limited and Calgary Flames Hockey Club Ltd.

William A. Howard (70) has been a Director of the Corporation since May 13, 1977. He is a senior partner in the law firm of Howard, Mackie, and resides in the City of Calgary. He also serves on the Boards of Bow Valley Industries Ltd., The SNC Group Inc., Trilogy Resource Corporation and Irvco Resources Ltd.



Peter L.P. Macdonnell (69) has been a Director of the Corporation since July 17, 1972. He is a partner in the law firm of Milner & Steer, and resides in the City of Edmonton. He also serves on the Boards of Alberta Energy Company Ltd., CAE Industries Ltd., Echo Bay Mines Ltd., Vencap Equities Alberta Ltd., a Canadian chartered bank and certain subsidiaries of the Corporation.

R. Alastair Morton (51) has been a Director of the Corporation since January 27, 1989. Mr. Morton resides in London, England. He is British Co-Chairman of Eurotunnel, the company granted a concession to design, build and operate fixed links between Great Britain and France. Prior to October 1987 he was Chairman and Chief Executive of the Guinness Peat Group. Mr. Morton also serves on the Boards of Banque Nationale de Paris plc and of National Power Co.

H.J. Sanders Pearson (67) is Vice Chairman of the Board of the Corporation. He has been a Director of the Corporation since July 17, 1972. He resides in the City of Edmonton and is Chairman of Century Sales & Service Limited, a company engaged in the distribution of industrial tools and fasteners. Prior to June 1985 he was Chairman of the Board of the Corporation. He also serves on the Boards of The Mutual Life Assurance Company of Canada, Prudential Steel Ltd., TransAlta Utilities Corporation and certain subsidiaries of the Corporation.

Robert L. Pierce (59) has been a Director of the Corporation since May 13, 1977 and was the President of the Corporation until April 1988. Prior to January 1986 he was Executive Vice President of the Corporation. He resides in the City of Calgary. He is an executive of certain subsidiaries of the Corporation and also serves on the Boards of a Canadian chartered bank, Husky Oil Ltd., Interstate Natural Gas Association of America and certain subsidiaries of the Corporation.

William G. Wilson (53) has been a Director of the Corporation since January 22, 1988. He is Executive Vice President and Chief Financial Officer of the Corporation and resides in the City of Calgary. Prior to December 1986 he was President of Cominco Ltd. Mr. Wilson also serves on the Board of BGR Precious Metals Inc.

Directors Appointed by the Lieutenant Governor in Council

The NOVA Act provides that four Directors of the Corporation must be residents of Alberta appointed by the Lieutenant Governor in Council of Alberta. The Directors presently in office who have been appointed by the Lieutenant Governor in Council are set forth immediately below. Each such Director has held his present principal occupation or executive position with the same or associated firms for the past five years except for Harold P. Milavsky, who prior to June 1986 was the President and Chief Executive Officer of Trizec Corporation Ltd. and Daryl K. Seaman, who prior to January 1988 was Chairman, President and Chief Executive Officer of Bow Valley Industries Ltd. and prior to September 1985 was Chairman of Bow Valley Industries Ltd. The term of appointment of William H. Comrie will expire at the termination of the Meeting, and the Corporation expects to receive information from the Lieutenant Governor in Council as to this position before that date. The term of appointment of J. Joseph Healy will expire at the termination of the annual meeting in 1990. The terms of appointment of Harold P. Milavsky and Daryl K. Seaman will expire at the termination of the annual meeting in 1991. Also set forth below is the age (as of February 24, 1989) and principal occupation of each such Director, the period during which each has served as a Director of the Corporation and certain other directorships held by each Director (including directorships of companies which have a class of securities registered pursuant to Section 12 of the Exchange Act or are subject to Section 15 of the Exchange Act).

William H. Comrie (41) has been a Director of the Corporation since May 1, 1986. He resides in the City of Edmonton and is Chairman and Chief Executive Officer of The Brick Warehouse Corporation, a company engaged in the marketing of retail furnishings. He also serves on the Board of the Edmonton Eskimos Football Club.

J. Joseph Healy (59) has been a Director of the Corporation since April 19, 1977. He resides in the City of Edmonton and is the President of Healy Motors Limited, a company engaged in transportation.

Harold P. Milavsky (58) has been a Director of the Corporation since April 26, 1988. He resides in the City of Calgary and is the Chairman and Chief Executive Officer of Trizec Corporation Ltd., a company engaged in development and management of commercial income properties. He is Chairman of the Board of Carena Bancorp Inc. and also serves on the Boards of the Rouse Company, Brascan Limited, Ernest W. Hahn, Inc., London Life Insurance Company, Bramalea Limited, Hees International, BioTechnica International of Canada Inc., Coscan Development Corporation, Saskatchewan Oil and Gas Corporation and Amoco Canada Petroleum Company Ltd.

Daryl K. Seaman (66) has been a Director of the Corporation since April 9, 1973. He resides in the City of Calgary and is Chairman and Chief Executive Officer of Bow Valley Industries Ltd., a company engaged in natural resource exploration and development. He also serves on the Boards of Vencap Equities Alberta Ltd., BioTechnica International of Canada, Inc. and certain subsidiaries of the Corporation.

EXECUTIVE OFFICERS

The table below shows the name and age (as of February 24, 1989), positions held with the Corporation and principal occupations within the last five years of each executive officer of the Corporation. Unless otherwise noted, all positions listed in the table below are with the Corporation. Officers are appointed by the Board of Directors from time to time and serve at the discretion of the Board of Directors.

Name and Age	Position with NOVA
Sidney Robert Blair (59)	Chairman of the Board of Directors and Chief Executive Officer
James Henry Butler (57)	President
William George Wilson (53)	Executive Vice President and Chief Financial Officer
George Firman Bentley (55)	Senior Vice President
Pierre Choquette (46)	Senior Vice President
John Edwin Feick (45)	Senior Vice President
Donald Gene Olafson (52)	Senior Vice President
Bruce Wayne Simpson (44)	Senior Vice President
Richard Charles Milner (44)	Vice President and Treasurer
Jack Stephen Mustoe (41)	Vice President, General Counsel and Corporate Secretary
Albert Terence Poole (46)	Vice President and Controller

Notes:

All of the above officers have held their present positions with the Corporation for the past five years, except as indicated below:

S.R. Blair	Prior to January 1986, Chairman of the Board of Directors, President and Chief Executive Officer of the Corporation; prior to June 1985, President and Chief Executive Officer of the Corporation;
J.H. Butler	Prior to April 1988, Executive Vice President of the Corporation; prior to April 1986, Vice President, International Trade, Petrochemical Division, Mobil Oil Company; prior to January 1986, Vice President, Business Development and Joint Interests of that company;
W.G. Wilson	Prior to December 1986, President of Cominco Ltd.;
G.F. Bentley	Prior to October 1988, President, Basic Petrochemicals Division, Polysar Limited; prior to March 1988 Group Vice President, Basic Petrochemicals Division, Polysar Limited; prior to June 1985, Group Vice President, Rubber and Plastics, Polysar Limited;
P. Choquette	Prior to October 1988, President, Polymers Division, Polysar Limited; prior to March 1988, Group Vice President, Rubber, Polysar Limited; prior to August 1986, Vice President, Rubber, North and South America, Polysar Limited;
J.E. Feick	Prior to April 1988, President of Novacor Chemicals Ltd.; prior to April 1987, Senior Vice President of the Corporation;
D.G. Olafson	Prior to October, 1988, Division Senior Vice President, Alberta Gas Transmission Division and President, Novacorp International Consulting Inc.;
R.C. Milner	Prior to October, 1988, Vice President, Treasurer and Corporate Secretary of the Corporation; prior to June 1987, Vice President and Treasurer of the Corporation; prior to February 1985, Vice President, Treasurer and Corporate Secretary of the Corporation; prior to February 1984, Vice President and Treasurer of the Corporation;
J.S. Mustoe	Prior to October 1988, Vice President and General Counsel of the Corporation; prior to May 1988, Assistant General Counsel, Norcen Energy Resources Limited; prior to February 1986, Senior Corporate Counsel, Dome Petroleum Limited;
A.T. Poole	Prior to March 1988, Vice President of Phillips Cables Ltd.

STATEMENT OF EXECUTIVE COMPENSATION

Definitions

For the purposes of this Statement, "executive officer" of the Corporation means the chairman of the Board of Directors, the president, any vice president in charge of a principal business unit such as sales, finance or production and any officer of the Corporation or a subsidiary who performs a policy-making function in respect of the Corporation, whether or not such officer is also a director of the Corporation or a subsidiary.

Cash Compensation

The following table sets forth the aggregate cash compensation paid by the Corporation and its subsidiaries for services rendered during 1988 to (a) each of the five most highly compensated executive officers of the Corporation and (b) all executive officers as a group (12 persons)[4].

Name of Individual or Number of Persons in Group	Capacities In Which Served	Cash Compensation (1)(2)(3)(5)
S.R. Blair	Chairman of the Board of Directors and Chief Executive Officer	$1,372,500
J.H. Butler	President	$1,169,327
W.G. Wilson	Executive Vice President and Chief Financial Officer	$1,025,466
J.E. Feick	Senior Vice President	$ 486,566
B.W. Simpson	Senior Vice President	$ 294,250
12 executive officers as a group (including those listed herein)(4)		$6,289,500 (6)

Notes:

(1) Includes cash bonus paid in 1989 for services rendered in 1988, pursuant to the Corporation's Management Incentive Plan described below.

(2) Includes amounts contributed by the Corporation under the Savings Plan described below.

(3) Executive officers receive no directors' fees for service on the Board of Directors of the Corporation, its subsidiaries or affiliates.

(4) This table and the information following in this Statement of Executive Compensation includes amounts paid to R.L. Pierce, formerly President of the Corporation.

(5) Does not include amounts paid to G.F. Bentley and P. Choquette prior to the Corporation's acquisition of Polysar Energy & Chemical Corporation on September 7, 1988.

(6) Includes cash bonus paid in 1989 for services rendered in 1988 pursuant to Polysar Limited's Variable Compensation Plan described below.

Plans

MANAGEMENT INCENTIVE PLAN AND VARIABLE COMPENSATION PLAN

Bonuses were paid in 1989 in respect of 1988 under an informal plan or arrangement (the "Management Incentive Plan") whereby management recommends to the Management Resources and Compensation Committee of the Board of Directors of the Corporation the awarding of bonuses on an individual basis for the prior fiscal year. The Management Resources and Compensation Committee considers the recommendations of management and makes recommendations to the Board of Directors and bonuses are paid based on the Board of Directors' decision. The criteria used for the

determination of the amount of any bonus are (a) the performance of the Corporation, (b) the performance of the appropriate division or subsidiary of the Corporation, (c) the bonus practice in competitive companies and (d) the individual executive, managerial, professional or administrative achievement for the Corporation made by each individual.

Polysar Limited employees, including two executive officers of the Corporation, participate in an informal incentive compensation plan (the "Variable Compensation Plan") which provides the opportunity to earn bonuses based on achieving earnings targets and business goals. Earnings targets are based on budgeted expectations and are approved by the Polysar Limited Board of Directors. Bonus levels are established based on local competitive compensation and are approved by the Polysar Limited Board of Directors. In addition to company performance, executive officers' compensation under the Variable Compensation Plan includes consideration for their individual management contribution. In 1989 all executive officers will only be entitled to participate in the Corporation's Management Incentive Plan and their participation in the Variable Compensation Plan will be discontinued.

Total awards made by the Corporation and its subsidiaries for services rendered during the three-year period 1986 to 1988 inclusive (including amounts paid under the Variable Compensation Plan since the acquisition of Polysar Limited) were as follows: (a) Mr. Blair, $1,050,000, Mr. Butler, $890,000, Mr. Wilson, $800,000, Mr. Feick, $330,000 and Mr. Simpson, $145,000; (b) all directors and executive officers as a group, $4,252,875; and (c) all employees, $10,559,628. In 1989 the sum of $3,667,875 was paid to 12 executive officers by way of bonus in respect to services rendered during the calendar year 1988. Directors who are not full-time employees do not receive bonuses. Bonus allocations for 1988 reflect the exceptional efforts connected with an acquisition of very large size and the exceptional increase in earnings achieved for the year.

PENSION PLANS

The Corporation's pension plan (the "Pension Plan") is a non-contributory defined benefit pension plan for all employees, including executive officers, after one year of continuous employment. Directors who are not also employees or executive officers of the Corporation are not eligible to participate in the Pension Plan. The Pension Plan provides a benefit based on the average of the five highest years' annual base salary which becomes vested only after an employee has five years of continuous service with the Corporation. Pension Plan benefits are calculated as follows:

(A) 1.4% of the highest 5 years' average salary up to the Canada Pension Plan Yearly Maximum Pensionable Earnings ceiling; and

(B) 2% of the highest 5 years' average salary above this ceiling.

The aggregate value of (A) and (B) is multiplied by years of credited service.

Pension Plan benefits are paid by an independent trustee on a monthly basis directly to the annuitant. Such benefits are exclusive of amounts payable under the Canada Pension Plan.

Unreduced retirement benefits under the Pension Plan are available after attainment of age 62; partial actuarial reductions apply otherwise. However, Pension Plan benefits are subject to Revenue Canada maximum pension regulations which have the effect of limiting annual benefits for persons earning more than $95,000 per year to $1,715 per year of credited service. The Pension Plan benefits of all executive officers are affected by these maximum pension regulations. The following table illustrates the operation of the Pension Plan in relation to executive officers as a result of the maximum pension regulations:

	Years of Service					
	10	15	20	25	30	35
Annual pension	$17,150	$25,725	$34,300	$42,875	$51,450	$60,000

Pension Plan benefits are paid in the form of a lifetime pension which, in the normal form, continues at a rate of 50% to a surviving spouse upon the death of the pensioner. If the pensioner does not

have a spouse at the time of retirement, the benefits are paid as a lifetime pension, guaranteed for 5 years. Pension Plan benefits are fully vested after 5 years of continuous employment with the Corporation.

For the following executive officers, the years of credited service in the Pension Plan to December 31, 1988 are: Mr. Blair, 19.1 years; Mr. Butler, 2.7 years; Mr. Wilson, 2.0 years; Mr. Feick, 10.9 years and Mr. Simpson, 16.5 years.

A separate plan for designated employees of Polysar Limited (the "Polysar Plan"), including two executive officers of the Corporation, provides benefits which are similar to those provided under the Corporation's Pension Plan except:

(A) vesting under the Polysar Plan occurs after two years of Polysar Plan membership;

(B) the highest three year's earnings are considered in calculating the pension benefit (the Canada Pension Plan is integrated at 0.7%); and

(C) the Polysar Plan's early retirement benefits reduce the benefit by 5/12ths of 1% for each month that early retirement precedes age 62 plus 1/12th of 1% for each month by which 85 exceeds the sum of attained age and continuous service. The Canada Pension Plan offset takes effect from Normal Retirement Date, and an additional bridging supplement is payable to the Normal Retirement Date if early retirement takes place on or after the attainment of age 62.

The Corporation has entered into pension agreements with certain officers and employees, including Messrs. Butler, Wilson, Feick and Simpson. These agreements provide for supplementary pension payments, based on the earned pension under the Pension Plan and the Polysar Plan, which supplementary payments would be above those pension payments allowed by the Department of National Revenue regulations applicable to registered pension plans and therefore, would not be deductible for income tax purposes by the Corporation or Polysar Limited, as the case may be. The aggregate pension payments resulting from such agreements and the pension payments payable under the Pension Plan or the Polysar Plan would be generally equivalent to the benefit which is earned under the Pension Plan or the Polysar Plan without such regulatory restrictions.

The Corporation has entered into supplemental pension agreements with each of Messrs. Blair and Pierce. Under such agreements Messrs. Blair and Pierce will receive total pension benefits equal to certain percentages of their respective average annual salary over a certain period as officers of the Corporation, including benefits payable under the Pension Plan but excluding benefits payable under the Canada Pension Plan. The future supplemental pension payments to Messrs. Blair and Pierce on their retirement from service to the Corporation are expected to amount to $234,000 and $157,000, respectively, per year. The Corporation has also agreed to continue to employ Mr. R.L. Pierce until December 31, 1991, subject to earlier termination in certain events.

The Corporation has agreed to compensate Mr. Butler for loss incurred by him in respect of the loss of certain rights under the Mobil Oil Company Pension Plan and Savings Plan. Such compensation is payable in 1991, subject to acceleration in certain events, in an amount equal to the Canadian dollar equivalent of U.S. $200,000, subject to reduction in certain cases.

LONG TERM DISABILITY

The Corporation provides executive officers with long term disability plan coverage during the second and subsequent years of a disability which prevents such executive officers from carrying out their duties. This plan supplements the coverage provided under the Corporation's long term disability plan for all employees which provides 70% of an employee's salary up to $6,000 per month during a disability.

The benefit coverage provided under the supplementary plan is:

70% of salary on the first $100,000;
50% of salary on the second $100,000;
30% of salary on the third $100,000; and
10% of salary on the balance of the executive officer's base salary.

No benefits were paid under this plan in 1986, 1987 or 1988.

SAVINGS PLAN

The Corporation provides a voluntary savings plan for all permanent employees (other than those of Polysar Limited or its subsidiaries) as a vehicle for long term savings funded by employee contributions and by the Corporation after one year of continuous employment. The contributions of the Corporation to employees' accounts are made monthly and are immediately vested. Savings Plan assets are held and administered by a trustee in some or all of three investment vehicles at the Savings Plan member's option, including Common Shares.

Contributions of the Corporation to employees' accounts are based on the following service-related schedule:

(A) Employees may contribute 1% to 5% of base salary as regular contributions and up to a further 5% as additional contributions.

(B) During the second and third years of employment the Corporation matches 50% of employees' regular contributions.

(C) During the fourth and fifth years of employment the Corporation matches 75% of employees' regular contributions.

(D) After five years of employment the Corporation matches 100% of employees' regular contributions.

(E) After 10 years of employment the Corporation matches 100% of employees' contributions to a maximum of 7% of base salary. This Savings Plan provision does not apply to employees whose base salaries are $125,000 and above.

Total corporate contributions under the Savings Plan for the period 1986 to 1988 were: (a) Mr. Blair, $85,219, Mr. Butler, $22,287, Mr. Wilson, $14,901, Mr. Feick, $28,916, and Mr. Simpson, $24,367; (b) all directors and executive officers as a group, $229,146; and (c) all employees, $15,802,633. Messrs. Blair, Butler, Wilson, Feick and Simpson joined the Savings Plan in 1986, 1987, 1988, 1978 and 1972, respectively. Directors who are not full-time employees are not eligible to participate in the Savings Plan.

STOCK OPTION PLAN

The Corporation also has an employee incentive stock option plan which is described below under the heading "Amendment to Employee Incentive Stock Option Plan".

Compensation of Directors

As of January 1, 1989, each Director who is not a full-time employee of the Corporation is paid a retainer fee of $10,000 per year which is paid quarterly, an attendance fee of $1,500 for each meeting attended and a travel fee of $1,500 per day for each travel day prior to each meeting attended. Directors who are full-time employees of the Corporation do not receive directors' fees. Directors who are members of the Management Resources and Compensation Committee of the Board of Directors and the Audit Committee of the Board of Directors and who are not full-time employees of the Corporation are paid $1,500 for each committee meeting attended except in the case of the chairman of each such Committee, to whom a fee of $3,000 (including the $1,500 attendance fee) is paid for each meeting attended.

Other Compensation

The aggregate value of all other non-cash compensation paid to executive officers for services rendered in 1988 to executive officers was approximately $63,500 and did not in any event exceed $10,000 per executive officer.

APPOINTMENT OF AUDITORS

It is proposed that Clarkson Gordon, Chartered Accountants be appointed to act as auditors for the current year. This firm has served as auditors of the Corporation since 1956. Representatives of Clarkson Gordon are expected to be present at the Meeting and will be given the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

AMENDMENT TO EMPLOYEE INCENTIVE STOCK OPTION PLAN

The rules of the exchanges on which the Corporation's Common Shares are listed and certain provisions of United States securities laws require or make it advisable to obtain shareholder approval of an amendment to stock option plans under which directors and executive officers may obtain shares of the Corporation. In order to be in compliance with such rules and provisions the Corporation is seeking shareholder approval of an increase in the number of Common Shares authorized for issuance under the Stock Option Plan from 9,341,850 remaining authorized on January 27, 1989 to 14,000,000 Common Shares. This amendment will increase the number of Common Shares reserved under the Stock Option Plan to approximately 5.7% of the issued Common Share capital of the Corporation, The Toronto Stock Exchange permits the reservation of shares for options of up to a number which is 10% of the issued capital of that class of shares of a corporation. In order to approve this amendment to the Stock Option Plan, the Corporation requires an affirmative vote of a majority of votes of holders of Common Shares who, if entitled to do so, vote in person or by proxy on this matter at the Meeting. The following is a summary of the principal features of the Stock Option Plan.

General Information Regarding the Plan

The Stock Option Plan was approved by shareholders of the Corporation at the annual meeting of the Corporation on April 26, 1988 by a majority of 99.5% of the votes cast. The Stock Option Plan was first created effective as of September 10, 1982 and was most recently amended February 24, 1989.

The Stock Option Plan provides that the Board of Directors may grant to officers and employees of the Corporation or its more than 50% held direct or indirect subsidiaries, as defined in the Stock Option Plan (the "Subsidiaries"), options to purchase from treasury Common Shares of the Corporation. The number of Common Shares last authorized for issuance under the Stock Option Plan was 10,500,000 Common Shares of which 9,341,850 Common Shares remained authorized on January 27, 1989, subject to adjustment. At December 31, 1988 and at January 27, 1989 there were 7,278,075 Common Shares and 7,333,325 Common Shares respectively, allocated for the exercise of then outstanding options. All Common Shares issued upon the exercise of any option are issued as fully-paid and non-assessable Common Shares. The Board of Directors may, as part of the option, grant a right to an employee to surrender all or part of his right to acquire Common Shares under such option in exchange for receiving a lesser number of Common Shares without any further consideration. See "Stock Appreciation Rights". The Stock Option Plan provides that the Board of Directors may, in respect of any option, specify a number or percentage of Common Shares for which the employee may exercise his option in any specific period, year or number of years.

The purpose of the Stock Option Plan is to provide incentive for key employees of the Corporation and its Subsidiaries to produce constant improvement in operating results, to remain as employees, to become owners of Common Shares and to contribute to the growth in value of the Common Shares.

The criteria used for granting options to executive officers consists of: (a) the relative level of success or achievement of the executive officer; (b) the level of responsibility given to a newly appointed executive officer; (c) whether or not the executive officer has been given additional responsibilities; and (d) the number of shares under options then held by an executive officer.

In all cases the granting of options is made by the Board of Directors based upon the recommendations of a committee appointed by the Board of Directors (the "Committee"). See "Administration of the Plan". When options are exercised, the payment for the Common Shares purchased thereunder must be made contemporaneously. The options are granted at the closing market price on The Toronto Stock Exchange on the date the grant is made by the Board of Directors.

If any options are surrendered or terminated prior to exercise, the Common Shares represented by such options become available for reallocation under the Stock Option Plan. The Stock Option Plan provides for an adjustment in the number of optioned Common Shares subject to outstanding options as well as the number of optioned Common Shares available for grant under the Stock Option Plan to reflect any stock split, stock dividend or similar capital adjustment of or by the Corporation, or to reflect any reorganization of the Corporation.

Administration of the Plan

The Board of Directors may interpret the Stock Option Plan, prescribe, amend or revise rules and regulations relating to it, and make all other determinations necessary or advisable for its administration, and may alter, suspend or discontinue the Stock Option Plan, provided that such alteration, suspension or discontinuance does not divest any optionee of any rights he may have under any option agreement then in effect. Any amendments to the Stock Option Plan required by applicable law to be approved by shareholders of the Corporation do not become effective until so approved.

The Stock Option Plan is administered by the Board of Directors which may delegate certain of its responsibilities to the Committee. The Board of Directors receives the recommendations of the Committee (currently, the Management Resources and Compensation Committee) and determines from time to time those employees who should be granted options, the date on which such options will terminate, the number of Common Shares to be optioned from time to time to any employee and other terms and conditions of the option agreements.

The Stock Option Plan, any option granted thereunder and any option agreement entered into pursuant thereto will not give any optionee the right to continue to be an employee.

Employees Who May Participate in the Plan

Participants in the Stock Option Plan are key employees of the Corporation and the Subsidiaries, including officers and Directors who are full time employees of the Corporation or its Subsidiaries and employees of partnerships and joint ventures in which the Corporation or any of its Subsidiaries are participants.

In addition, (a) a person who is in the full-time service of the Corporation as an officer, but is not actually an employee of the Corporation, may be granted an option with the approval of the Board of Directors and of the stock exchanges upon which the Common Shares are listed and such other regulatory approvals as may be necessary; and (b) if an optionee in Canada is transferred out of Canada, the Board of Directors may, in its discretion, permit the optionee to exercise his options at that time, notwithstanding the terms of the option agreement.

At December 31, 1988, the Corporation and the Subsidiaries had approximately 10,100 employees, of which any key employee was eligible to participate in the Stock Option Plan. At December 31, 1988, there were 212 participants in the Stock Option Plan.

Purchase of the Securities Pursuant to the Plan

Options are exercisable only in multiples of 100 Common Shares.

Each option will terminate on the date determined by the Board of Directors (the “Expiry Date”), which date may not be more than 10 years after the date on which the option is granted (the “Option Date”). The Expiry Date may be extended in certain circumstances as set forth in the Stock Option Plan, including death, permanent disability, entering armed forces and employment in a civilian government capacity.

If, prior to the Expiry Date, the employment of the optionee terminates for any other reason, the option may be exercised (for Common Shares as to which the option otherwise would have been exercisable) up to the earlier of 30 days after such termination of employment of the optionee and the Expiry Date.

The Stock Option Plan provides that the Board of Directors may, in respect of any option, specify a number or percentage of Common Shares as to which the employee may exercise his option in any specified period, year or number of years.

Each of the options granted during 1988 was under the Stock Option Plan and is for a term of seven years from the date of the grant. In each of the three 12 month periods subsequent to the granting of an option the holder of an option may exercise the option as to 25% of the aggregate number of shares under such option on a cumulative basis and thereafter the option may be exercised until its expiry date as to the balance of the shares granted under the option.

An optionee has no rights whatsoever as a shareholder to the Common Shares underlying his unexercised options (including any right to receive dividends or distributions therefrom or thereon) until he has exercised the options and has taken up and paid for the Common Shares. The interests of any optionee under the Stock Option Plan or under any option agreement are not transferable or alienable by the optionee, either by assignment or in any other manner whatsoever and, during his lifetime, will be vested only in him, but, subject to the terms of the Stock Option Plan and of the option agreement, will inure to the benefit of and be binding upon his legal personal representatives.

Stock Appreciation Rights

The Committee may, in its discretion and subject to such terms and conditions as it, in its sole discretion, may prescribe, make recommendations to the Board of Directors to grant to an optionee a stock appreciation right (a "SAR") to surrender all or part of his unexpired and unexercised options in exchange for a number of Common Shares calculated as described below. The Board of Directors may accept a recommendation from the Committee or vary such recommendation, and grant to the optionee the right to surrender his unexpired and unexercised options and receive in exchange therefor the number of Common Shares equal to the result obtained by multiplying the number of Common Shares underlying the surrendered options by a fraction, the numerator of which is the amount, if any, by which the "Surrender Date Market Price" (as defined below) exceeds the exercise price per Common Share of the surrendered options and the denominator of which is the Surrender Date Market Price. The "Surrender Date Market Price" is the last reported sale price at which the Common Shares of the Corporation traded on The Toronto Stock Exchange on the date on which the optionee surrenders his unexercised and unexpired options, or, if there is no reported sale price on such date, then the last reported sale price at which Common Shares traded on The Toronto Stock Exchange prior to such date.

Any such right must be exercised by written notice to the Corporation, and may only be extended if (a) the exercise of the option in the ordinary course would, in the opinion of the Board of Directors of the Corporation, cause undue hardship; (b) in cases where, for other reasons, the normal exercise provisions would defeat the purposes of the Stock Option Plan; or (c) for other exceptional reasons. In any such event, the Board of Directors must be satisfied that such action would be in accordance with applicable laws and regulations.

To date, no stock appreciation rights have been granted under the Stock Option Plan.

Payment for Securities Offered

The purchase price of Common Shares for which an option is exercised must be paid in full, in Canadian funds, by certified cheque or bank draft payable to or to the order of the Corporation at the time of exercise.

Use of the Plan

In connection with options granted to executive officers during 1988, the following table summarizes information regarding executive officers receiving options, the expiry date, the number of Common Shares covered by the options granted and the exercise price. The exercise price is the market price at the date of grant as referred to above.

Executive Officer	Date of Expiry	Number of Shares	Exercise Price
S.R. Blair	April 25, 1995	200,000	$11.625
J.H. Butler	April 25, 1995	150,000	$11.625
W.G. Wilson	April 25, 1995	100,000	$11.625
12 executive officers as a group (including those listed herein)(1)	February 22, 1995 April 25, 1995 October 26, 1995	100,000 575,000 200,000	$ 9.625 $11.625 $11.75

Note:

(1) This table and the information following relating to use of the Stock Option Plan includes information pertaining to R.L. Pierce who retired from his office as President of the Corporation on April 26, 1988.

During 1988 the number of options exercised by executive officers was 674,500.

The Common Shares closed at $12.50 on The Toronto Stock Exchange on February 24, 1989.

The following table shows for those listed executive officers, for all executive officers as a group and for all employees during the period January 1, 1986 through December 31, 1988, inclusive: (a) the number of shares covered by options granted; (b) the average option price per share; and (c) the net value realized upon the exercise of the options:

Name	No. of Options Granted from January 1, 1986 to December 31, 1988	Average Option Price per Share(1)	Net Value Realized Upon Exercise of Options(2)
S.R. Blair	650,000	$9.63	$ 650,000
J.H. Butler	750,000	$8.29	$ 983,750
W.G. Wilson	550,000	$8.20	$ 511,000
J.E. Feick	100,000	$8.75	$ 767,875
B.W. Simpson	100,000	$8.75	$ 937,813
12 Executive officers as a group	3,010,000	$9.04	$3,965,000
All employees (3)	6,187,000	$9.29	$8,063,752

Notes:

(1) Weighted average.

(2) Represents the difference between the market value on the dates of exercise and related option prices.

(3) As at January 31, 1989 there were 7,333,325 Common Shares reserved under outstanding options and the average exercise price for all shares so reserved was $9.056 per Common Share.

The net value realized in 1988 pursuant to the exercise of options issued by the Corporation under the Stock Option Plan by all executive officers was $3,512,875. As at December 31, 1988, the number of unexercised stock options held by executive officers was 2,326,000. The 1988 share option exercise decisions by Messrs. Blair, Butler and Wilson and some other officers were to increase their holdings of Common Shares.

Tax Consequences of the Plan

Canadian Taxes

The following is a summary of the principal Canadian federal income tax considerations of receiving an option pursuant to the Stock Option Plan generally applicable to recipients thereof who hold the Common Shares acquired pursuant thereto (the "optioned shares") as capital property and who deal at arm's length with the Corporation. This summary is based on the current provisions of the Income Tax Act (Canada) (the "Tax Act"), the regulations thereunder and current administrative practices of Revenue Canada, Taxation and draft legislation released to date. This summary does not take into account provincial tax legislation or considerations.

Receipt of an option will not have any adverse income tax consequences to the recipient thereof. An employee will be deemed to have received an employment income benefit fully taxable in the year he exercises the option equal to the difference between the exercise price and the fair market value of the optioned share on the acquisition date. This deemed employment income benefit may be partially offset by a deduction equal to 33 1/3% thereof where the exercise price is not less than the fair market value of the optioned share at the date the stock option is granted. This deduction shall be reduced to 25% of the employment benefit received after 1989. The adjusted cost base of an optioned share shall be the aggregate of the exercise price and the deemed employment income benefit, if any. Where an employee owns other Common Shares, his adjusted cost base of an optioned share shall be his average adjusted cost base of all Common Shares then owned. The Corporation is not entitled to claim the amount of the deemed employment income benefit as a deduction in computing its income.

The surrender of an option in consideration of the issuance of Common Shares pursuant to a SAR will result in receipt of a fully taxable deemed employment income benefit equal to the fair market value of the Common Shares received. The deduction equal to 33 1/3% of such deemed employment income benefit will also be available in these circumstances if the exercise price was not less than the fair market value of the optioned share at the date the option was granted.

In general, a disposition of an optioned share may give rise to either a capital gain or a capital loss equal to the amount by which the proceeds of disposition, net of any costs of disposition, are greater than or are less than the adjusted cost base of the optioned share.

In 1989, 66 2/3%, and thereafter 75%, of a capital gain will be included in income as a taxable capital gain. Capital losses may be applied against capital gains but may not be used to offset other income. Employees resident in Canada throughout the taxation year may be entitled to the $100,000 cumulative lifetime exemption. Employees of the Corporation may become liable for Alternate Minimum Tax in respect of capital gains realized on the disposition of optioned shares.

Employees of the Corporation who are non-residents of Canada and who do not carry on a business in Canada will not normally be subject to Canadian income or capital gains tax upon the disposition of the option shares.

United States Taxes

The following generally describes the principal United States federal income tax consequences of the Stock Option Plan to employees granted options or SARs thereunder and to the Corporation and its Subsidiaries, to the extent that the employee, the Corporation or its Subsidiaries is subject to United States federal income tax laws. State and local tax consequences and special tax rules that apply to foreign income are not discussed.

Under applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), an employee will not recognize taxable income at the time a SAR or option is granted. The employee will recognize compensation income (ordinary income) at the time of exercise of the SAR or option equal to (i) in the case of a SAR, the aggregate fair market value of the optioned shares received, or (ii) in the case of an option, the excess of the fair market value of the optioned shares received over the aggregate option price. The basis in any optioned shares received will generally equal their fair market value as of the date of exercise. Any gain or loss recognized on disposition of such optioned shares will generally be treated as long-term or short-term capital gain or loss depending on the employee's holding period. Options granted under the Stock Option Plan are not intended to qualify as incentive stock options under section 422A of the Code nor is the Stock Option Plan intended to be a qualified plan under section 401(a) of the Code.

Under section 83(c) of the Code, in the absence of an election under section 83(b) described below, an employee who is subject to the six-month short-swing profit restrictions imposed by section 16(b) of the Exchange Act (an "insider") will not recognize ordinary income with respect to optioned shares acquired upon the exercise of any award until (or have his holding period for capital gain purposes start until just after) the expiration of six months after the acquisition of such optioned shares or,

if earlier, when the section 16(b) restrictions lapse with respect to the optioned shares so acquired (the "Restriction Period"). Under section 83(b) of the Code an insider is entitled, within 30 days of exercise, to elect to recognize income at the time of exercise, and an employee who so elects will be taxed in accordance with the rules described above with respect to non-insiders.

In all the above cases, the Corporation or its Subsidiary, as the case may be, will generally be entitled to a deduction in the same amount as the employee recognizes as compensation, for the taxable year of the Corporation or its Subsidiary in or with which ends the taxable year of the employee in which such ordinary income is recognized. In the case where shares are delivered upon exercise of an option or a SAR and the employer is not the Corporation, the Corporation may be deemed to have transferred the shares to the Subsidiary, the Subsidiary may be deemed to have sold the shares to the employee and the Subsidiary may be deemed to have paid the option purchase price to the Corporation; the Corporation may have a tax obligation with respect to such deemed receipt from the Subsidiary and the Subsidiary may have a tax obligation with respect to its deemed sale of such shares to the employee.

Dividends payable during the Restriction Period with respect to shares acquired by an insider pursuant to the exercise of an option or a SAR will be treated as (i) compensation, taxable as ordinary income, and deductible by the Corporation or its Subsidiary, if no election under section 83(b) was filed, or (ii) dividend income, not deductible by the Corporation or its Subsidiary, if such an election was filed.

SHAREHOLDER PROPOSALS

Shareholder proposals to be considered at the 1990 Annual Meeting of Shareholders of the Corporation must be received at the principal executive offices of the Corporation no later than November 14, 1989 to be included in the proxy statement and form of proxy for such Annual Meeting.

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

The contents and the sending of this Information Circular - Proxy Statement have been approved by the Board of Directors.

By Order of the Board of Directors

(Signed) S. ROBERT BLAIR
Chairman of the Board
and Chief Executive Officer

(Signed) WILLIAM G. WILSON
Executive Vice President
and Chief Financial Officer

Calgary, Alberta
March 13, 1989

MCARA
PRINTING
LIMITED
Calgary, Alberta, Canada

1989 Annual Report

NOVA

The NOVA Logo

A-Shaped for Alberta

Natural Gas Flame

Natural Gas Pipeline

Petrochemical Flask

The Corporation

Incorporated in the province of Alberta, NOVA is a widely held, shareholder-owned company operating internationally from world headquarters in Calgary, Alberta, Canada.

NOVA builds its businesses principally on pipelining and the manufacturing and marketing of materials processed from hydrocarbons.

1989 Operations and Financial Overview

- The Corporation generated $4.8 billion in sales and $186 million in net income on assets of $7.9 billion. Fully diluted net income per common share was 63 cents compared with $1.54 in 1988.
- Profitability of the petrochemicals and plastics divisions fell drastically as a result of a severe, industry-wide downturn in sales prices for NOVA's principal commodity products.
- The Alberta Gas Transmission Division contributed $88 million to NOVA's net income, up 17% from $75 million in 1988. Capital investment to build new pipeline capacity rose to $404 million in meeting customer requests for increased transportation service.
- Long-term obligations for non-cost-of-service operations were reduced by $860 million to $1.9 billion, or 55% of total non-cost-of-service capitalization.
- The quarterly dividend on common shares was increased in the second quarter to 13 cents per share from 11 cents per share and maintained at that level despite reduced net income.

Consolidated Financial Highlights

(millions of dollars except for share data)

Year Ended December 31	1989	1988	% Change
Financial			
Revenue	$ 4,840	$ 3,941	23
Operating Income	$ 821	$ 978	(16)
Net Income	$ 186	$ 396	(53)
Net Income to Common Shareholders	$ 168	$ 374	(55)
Net Income Per Common Share			
Basic	$ 0.64	$ 1.63	(61)
Fully diluted	$ 0.63	$ 1.54	(59)
Cash Flow			
Cash From Operations	$ 600	$ 863	(30)
Common Equity*	$ 2,359	$ 1,855	27
Per Share	$ 7.54	$ 7.14	6
Return On Average Common Equity	8.0%	24.4%	(67)
Dividends Paid Per Common Share	$ 0.50	$ 0.42	19

*Includes convertible debentures and warrants

All dollar figures used in this annual report are in Canadian dollars unless indicated otherwise. On February 28, 1990, the Bank of Canada noon rate for U.S. dollars was reported as U.S. $1.00 = Cdn. $1.1922 and Cdn. $1.00 = U.S. $0.8388. (See exchange rates on page 30.)

CONTENTS

Annual Meeting

NOVA Corporation of Alberta's annual meeting will be held on Tuesday, April 17, 1990, at 10:30 a.m. in the Calgary Convention Centre, 120 Ninth Avenue S.E., Calgary, Alberta.

Rapports annuels en français

Veuillez vous adresser au secrétaire de la Société si vous désirez recevoir un exemplaire de la version française de ce rapport.

Financial Results in 1989

1989 was a highly disappointing year for NOVA as to earnings and common share price. For the year, net income totalled $186 million, well below the restated $396 million for 1988 or expectation for 1989.

The high performance level of late 1988 continued only through the first quarter of 1989, then fell abruptly during the second and third quarters to bottom at approximately zero business earnings in the second half.

The reduction in earnings occurred principally because of the fall of sales prices of petrochemicals and plastics in world markets. Some decline of commodity sales prices had been anticipated after 1990 because of large new production capacity announcements. Few industry analysts believed that such price decline could be both very steep and start early in 1989, but the few were right.

Contributing to the reduction were the high exchange rate created for the Canadian dollar affecting NOVA, as one of Canada's larger net exporters, and the higher interest rates in Canada. To be fair, such monetary policy burden to Canadian exporters was the lesser reason for our profit decline in 1989, but it made a hard year tougher and this continues through February 1990. In the fourth quarter there were small writedowns on some assets held for sale and from our change to the "successful efforts" accounting practice for oil and gas investments.

Business Outlook in 1990 and 1991

Ongoing business profitability for the Corporation for 1990 and 1991 will probably be below our long-term performance objectives. These objectives will be described later in this letter, as will be described generally some steps which we intend to take toward realizing them again.

The basic problem faced for 1990 and 1991 is that the strong and fast-growing profit contributions from our gas pipelining business continue to be offset temporarily by negative results from our petrochemicals, plastics and petroleum investments.

Much of the larger profit swings are in plastics and petrochemicals, in which NOVA is a new but very large investor. These divisions, which contributed handsomely in 1988 and in the first quarter of 1989, are following the downturn of 1989 with some improvement in the first quarter of 1990. However, these two divisions also anticipate the possibility of further decline of

sales prices in some of their products later in 1990 and continuing in 1991. That this is expected by the majority of industry analysts, is a preoccupation which will be reflected in management decisions in 1990.

Such decisions will include further reduction of debt load, further reduction where possible of overhead and operating costs and constant driving for more and earlier profit from those business units which are contributing steadily.

It is often remarked that our plastics and petrochemicals business investments involve good assets, are well-placed geographically and are in cyclical industries which should rise and contribute well again after a period. However, we are also determined to do the best for 1990 and 1991 and to move back as promptly as possible toward our long-term performance objectives.

NOVA's synthetic rubber global division, part of the Polysar acquisition, continues to be a stable, good reputation business with opportunity to improve medium and long term profit contribution through further investment. NOVA must develop the best strategic use of this investment, with the division's long-experienced operational management.

Opportunities to increase profitability are in front of NOVA in many parts of its businesses, such as upgrading profits in our plastics business. Far the largest demand for new capital is for pipeline installation by the Alberta Gas Transmission Division. This division continues to add $400 million to $500 million per year of pipeline rate base and provides annual growth rate of division net income in the range of 10% to 20%.

All of this rate base renders necessary transportation service to the Canadian gas industry and produces immediate and reliable, while regulated, profit contribution for NOVA. It is partly the timely and cost-efficient provision of this capital, plus smaller amounts of new capital for profit improvement in some plastics or petrochemicals operations in Canada and internationally, which directs our management to deal with 1990 and 1991 aggressively by improving the balance sheet and current financial performance.

Strong Operational Capabilities

While expressing disappointment from recent financial performance, we should also emphasize the strong operational capabilities in NOVA.

Every main NOVA operation, whether manufacturing of petrochemicals, plastics or rubber materials, gas pipelining, gas marketing, international pipeline engineering or other, is presently producing more and better goods and services in the first quarter of 1990 than one year ago when our profits were best or for that matter, better than at any other time before. Operational capability will be apparent throughout this annual report. Our heads of business divisions or subsidiaries are mainly under 50 but average 16 years' experience in the NOVA or Polysar groups and six years in their present or similar assignments. They head teams of similar young men and women, who are highly productive, professionally and technically as good as there are, and energetically involved with this Corporation.

To address current business conditions and to optimize strengths of NOVA's employee base in the most productive manner possible, our grouping of NOVA's petrochemicals type of business into three divisions has taken place. The newly appointed presidents of these divisions have established organizational structures to address the challenges before them and to enhance NOVA's competitive strength and productivity.

The problems NOVA faced in 1989 and continues to deal with have not been related to operational management skills or experience. NOVA people have a long and fine record of building projects on time and within budget and then operating them competitively, advancing the Corporation's technology and maintaining safe and high quality performance.

We can be proud of our research and technology employees. They are highly educated, dedicated scientists. Along with their support staff they rank well in this technology-based world.

Financial and Related Objectives for Early 1990s

Good return on equity on NOVA investment overall is the first objective.

We will concentrate on achievement of NOVA's long-term financial standards as to three criteria:

- Return on consolidated common shareholders' equity to rise back above 15% as an annual average;

- As a long-term consequence, to see the growth of total return to common shareholders once again compounding at a higher rate than the total return of the TSE 300 companies;
- Long-term debt in non-utility investments to reduce to not more than 33% at the bottom of an economic cycle. Long-term debt in rate-base investments can continue at 60% or more under regulatory or contractual arrangements.

Other priorities are continuing leadership in long-term technological process and product improvement and pipeline efficiencies and strengthening our competitive presence in world markets.

We will endeavour to realize in NOVA's share price the value which is inherent in our 43% holding in Husky Oil Ltd., working with our partners in this valuable investment.

Because of the severity of the petrochemicals and plastics sectoral downturns which started in 1989, we will also reduce debt further and assemble capital for redeployment in improving profitability and building more balance in our continuing business in the production and marketing of materials processed from hydrocarbons.

NOVA will, of course, treat as one of the most important objectives during this period the full, prudent expansion of its Alberta Gas Transmission Division. We will maintain the well-established position for participation in future Arctic pipeline extensions and export lines. We will maintain effective technology development in gas pipeline expertise. NOVA can also continue developing other pipeline investments, international engineering and other complementary investments or activities related to pipelines.

Board and Management

Mr. Clifford Mort was appointed to the Board in August 1989. Mr. Mort's long chemicals' executive career included chairmanship of a major Canadian chemical corporation and membership on the Polysar Board since 1988. He is also working as an advisor to NOVA management.

The separate Board of Directors of Polysar Limited completed its interim responsibility by the end of 1989 as all Polysar became integrated in NOVA. We thank those Directors for their period of helpful service.

In October 1989, Pierre Choquette was appointed president of the Plastics Division, John Feick president of the Petrochemicals Division and Douglas Henderson president of the Rubber Division. The operational and commercial performance of NOVA in all aspects of those three businesses is being directed by those three division presidents.

Senior vice president Firman Bentley continues to be NOVA's senior officer resident in Ontario at his Sarnia office, and has also taken corporate-wide responsibility for public and employee communication, government relations and developing overseas investment plans.

NOVA'S Continuing Character

Concurrent with our financial objectives, we intend to protect or increase NOVA's present reputation of effectiveness on environment protection, occupational health and safety, employment of native people and disadvantaged, progressive donation practices, ethical behaviour and fairness in compensation. Additionally, we wish to develop more female representation in management of NOVA.

You will recall I discussed with you at the last shareholders' meeting NOVA's strong commitment to protecting our environment. We have made improvements since that time and will continue with strong emphasis on this matter within management and with all our employees.

NOVA also continues to feature Alberta headquarters, high level of Canadian ownership, prominent employee share ownership, encouragement of career progression, and fair consideration to all shareholders in this long-term growth Canadian equity. It maintains fair treatment to all securities holders at all times.

Common Share Dividend Policy

In NOVA, common share dividend policy is reviewed carefully in February each year.

In February 1989, the Board raised the quarterly common dividend rate from 11 cents to 13 cents per common share as a sustainable level. The Board declared the 13 cent dividend again in February 1990.

While the 13 cent rate is large in comparison with 1989 earnings or 1990 outlook, the Board prefers to maintain that

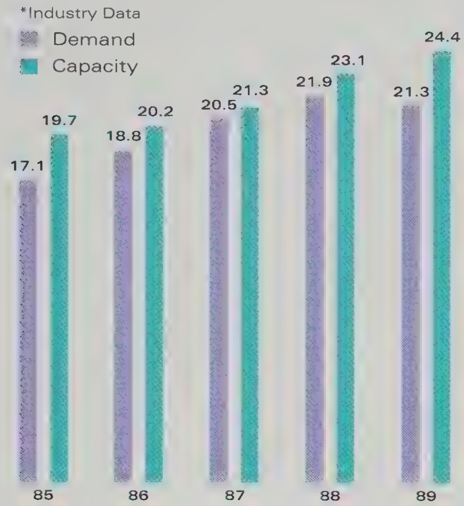
distribution to shareholders in 1990 on the basis of the sufficient cash flow and intended financial improvement. NOVA has a tradition of protecting an established dividend rate notwithstanding short-term cyclical downturns in parts of its business.

Respectfully submitted on behalf of the Board,

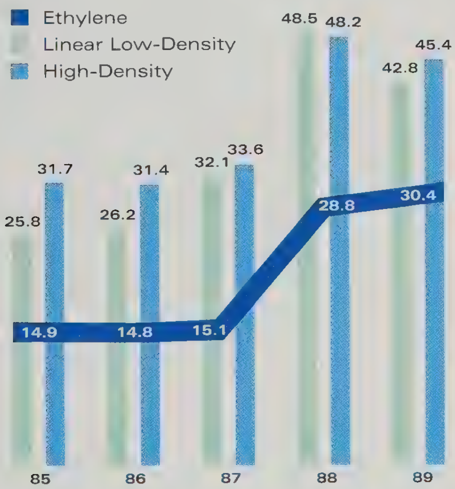
S. R. Blair
Chairman and Chief Executive Officer

February 23, 1990

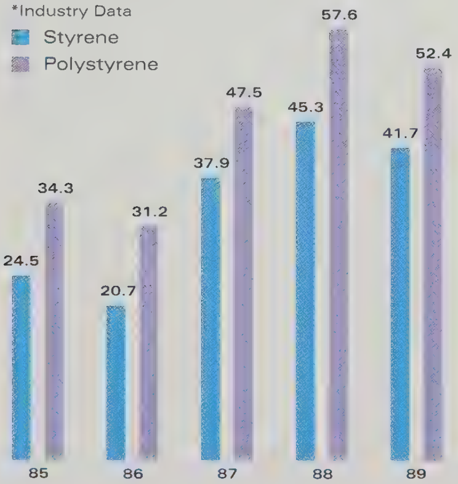
Polyethylene Capacity/Demand Canada and the United States*
(billions of pounds)
*Industry Data



Ethylene/Polyethylene Prices*
(U.S. cents per pound)
*Industry Data



Styrene/Polystyrene Prices*
(U.S. cents per pound)
*Industry Data



Profitability of these divisions fell drastically in 1989 as a result of a severe, industry-wide downturn in commodity prices for NOVA's principal petrochemical and plastics products.

Industry Perspective

Following record shipments, prices and profits in 1988, petrochemical and plastics prices declined throughout 1989.

The price decline resulted from slowing demand during 1989 coupled with new capacity additions coming on stream. In addition, buyers reduced inventories throughout the year, putting further pressure on pricing levels.

Buyer and producer inventories are approaching a balance as the industry enters 1990. Some product prices have recovered moderately from fourth quarter lows while others are expected to face continued pressure as a result of slower demand and increased capacity.

To optimize its inherent strengths in the most productive manner and to reduce costs, the Corporation has structured its chemical-related businesses as three divisions: Petrochemicals, Plastics and Rubber.

A debottlenecking program begun in 1987 is continuing and will further reduce unit costs for ethylene and polyethylene production. Both the polypropylene and synthetic rubber businesses are concentrating on value-added products and niche marketing. The focus at all NOVA facilities is to reduce production costs while maintaining high standards of quality, safety and environmental responsibility.

As NOVA enters the 1990s, society is challenged by a strong and growing desire to reduce solid waste, increase recycling of packaging materials and eliminate litter.

NOVA is actively involved in programs to meet this challenge and to highlight the beneficial aspects of plastics packaging. These programs include production of additives to accelerate plastic degradation in sunlight, polyethylene geomembrane sheet liners for landfills and other applications, and participation in polystyrene recycling ventures. In addition, NOVA is a strong supporter of industry associations such as the Environment and Plastics Institute of Canada and the Council for Solid Waste Solutions in the United States.

Review of 1989

(millions of dollars)

	1989	1988	% Change
Assets	$4,343	$4,544	(4)
Revenue	$3,366	$2,472	36
Operating Income	$ 511	$ 681	(25)

Lower earnings were recorded from all principal petrochemical and plastics products – ethylene, styrene, propylene, polyethylene, polystyrene, and methanol. The 1988 operating results include Polysar's operations from July 1, 1988.

Petrochemicals Division

NOVA's petrochemicals division had assets of $2.4 billion, revenue of $2.1 billion (before elimination of $664 million of intrasegment sales) and operating income of $361 million in 1989, compared with $2.5 billion, $1.5 billion (before elimination of $479 million of intrasegment sales) and $335 million respectively in 1988. The 1988 operating results include the styrene and ethylene operations of Polysar from July 1, 1988, and the methanol business from August 1, 1988.

A broad range of products – olefins, aromatics, fuel products and methanol – is produced at plant sites in Joffre, Alberta; Medicine Hat, Alberta; and Sarnia, Ontario. Much of this production is used as feedstock by NOVA's plastics and synthetic rubber divisions; the remainder

is sold in Canada, the United States, Europe and the Pacific Rim under long-term contracts and on the open market.

Production

(millions of pounds, except methanol)

	1989	1988	% Change
Ethylene*			
Joffre	3,200	3,130	2
Sarnia	980**	1,150	(15)
Styrene	660	630	5
Propylene	680	720	(6)
Methanol***	275	280	(2)

* In 1989, approximately 2,400 million pounds of ethylene were sold under long-term cost-of-service arrangements, 460 were sold at market-related prices and 1,350 were used internally by NOVA.
** Reduced by bi-annual 35-day shutdown.
*** Millions of U.S. gallons.

NOVA's two ethylene plants at Joffre operate under long-term supply contracts with third-party customers that provide a stable contribution to earnings. Ethane feedstock is obtained under long-term contracts and commercial arrangements that provide assured supply and cost stability. Through these contract arrangements, NOVA provides ethylene to its customers at a cost lower than the long-term average of other North American suppliers. About 25% of total production is used by the plastics division to produce polyethylene resin; the remainder is sold to other customers.

At Sarnia, petrochemical feedstocks and other products are produced at NOVA's integrated refinery/petrochemical complex and at its styrene facilities. During 1989, about 25% of total production was used within the Corporation to produce rubber and plastics. These facilities operate under sales contracts whereby the selling prices are linked to North American merchant markets. Profitability was reduced in 1989 as prices declined sharply from 1988 levels. During the fourth quarter of 1989, the average realized selling price for propylene fell to 12 cents (U.S.) per pound from 16 cents in 1988. Styrene prices fell to 29 cents from 51 cents in 1988.

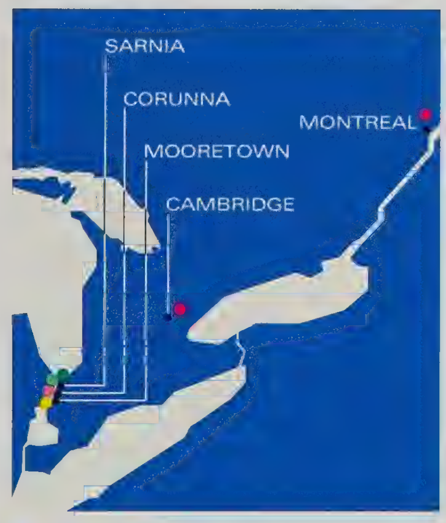
Advanced process technology and supply arrangements are in place to enable NOVA's Sarnia complex to use the most economical feedstocks available and produce the most appropriate product slate. The complex was debottlenecked in 1989, resulting in a 20% increase in ethylene capacity. Also during 1989, the complex was awarded a gold medal of excellence for reaching the five-star advanced level of the International Safety Rating System. Among the 3,000 companies participating in this program, the complex is the only petrochemical plant in the world that has achieved this level of safety performance.

Methanol, produced at three plants at Medicine Hat, is widely used in the construction and transportation industries around the world. During the fourth quarter of 1989, the average realized selling price for methanol fell to 31 cents (U.S.) per U.S. gallon from 57 cents in 1988. As a result, production was reduced during the second half of the year. Subsequently, one of the plants was shut down.

Facilities in Alberta

At world-scale plants in Canada, the United States and Europe, NOVA produces petrochemicals, plastics and synthetic rubber that are used to make a wide variety of industrial and consumer products including containers, packaging materials, garbage bags, tires and automotive products.

Facilities in Ontario and Quebec



- Polyethylene
- Rubber
- Styrene
- Polystyrene
- Integrated Refinery/ Petrochemicals Complex

Plastics Division

NOVA's plastics division had assets of $551 million, revenue of $1.1 billion and operating income of $89 million in 1989, compared with $645 million, $1.0 billion and $309 million respectively in 1988. The 1988 operating results include the polystyrene operations of Polysar from July 1, 1988.

Linear-low density polyethylene resin is produced at a world-scale plant at Joffre, and low-density and high-density polyethylene are produced at a plant at Sarnia. Polystyrene is produced at two plants in Canada and four plants in the United States. Polypropylene is produced at a plant in the United States.

Primary end-uses for these resins include rigid and flexible packaging, industrial containers of all types, garbage bags and a wide variety of consumer goods. Major markets are Canada, the United States and the Pacific Rim.

In addition, NOVA produces performance-oriented products such as resins for clear plastic applications, polyethylene geomembrane sheet, products that accelerate plastic degradation in sunlight and thermoplastic olefins used increasingly by the automotive industry. These value-added products command premium prices because of their unique properties.

All plants continued to operate safely and efficiently. The plastics division achieved one million safe working man-hours at the Sarnia polyethylene plant during 1989.

Production

(millions of pounds)

	1989	1988	% Change
Linear Low-Density Polyethylene	775	870	(11)
Low-Density Polyethylene	180	170	6
High-Density Polyethylene	210	210	—
Polystyrene	680	735	(7)
Polypropylene	80	—	—

After record profits in 1988, polyethylene and polystyrene profitability was reduced in 1989 as commodity prices declined. During the fourth quarter of 1989, the average realized selling price for polyethylene fell to 33 cents (U.S.) per pound from 54 cents in 1988. NOVA's polyethylene prices fell further than the North American industry average as a result of NOVA's current product mix and geographic distribution of sales. Polystyrene prices fell to 46 cents from 60 cents. The polypropylene

plant began commercial operation in October 1989, with the majority of sales being start-up and experimental grades.

Rubber Division

NOVA's rubber division had assets of $1.4 billion, revenue of $812 million and operating income of $61 million in 1989, compared with $1.4 billion, and $417 million and $37 million respectively for six months in 1988.

Synthetic rubber is produced at four sites, one in Canada, one in the United States and two in Europe. Major products include butyl rubber, halogenated butyl rubber, nitrile rubber, polybutadiene rubber, ethylene-propylene rubber and styrene-butadiene rubber. Major end-uses include tires, automotive components, footwear and industrial equipment.

Synthetic rubber products are sold around the world from 14 sales offices. About 45% of total sales are in North and South America, 40% in Europe and 15% in the Asia Pacific region.

Total sales in 1989 were approximately 980 million pounds compared with about one billion pounds in 1988. Although demand remained firm, some product lines were affected by production problems at plant sites in Canada and the United States, which were corrected late in the year. Profitability was reduced as a result of pressure on margins and foreign exchange rates.

The rubber division is focused on the development of value-added specialty rubber products that meet specific customer needs and command a premium price. During 1989, a new unit was added at Orange, Texas, to produce several grades of the new TORNAC rubber, a specialty product for the automotive, petroleum, aerospace and defence industries. These products have been well-accepted by the market. In addition, an agreement was reached with another major international company to pool related technology in return for their right to purchase up to 50% of production from the TORNAC rubber facility.

Outlook for 1990

Profitability of NOVA's petrochemical and plastics operations will be constrained by the industry-wide business downturn that began in 1989. While industry forecasts indicate little improvement this year, NOVA is in the advanced planning stages for investments in selected new business opportunities and is well-positioned to move forward in all divisions as market conditions permit.

The petrochemicals division plans to expand existing ethylene capacity at Joffre through debottlenecking. Size and timing of the expansion are unclear because negotiations under way with suppliers and customers have not been completed. For methanol, demand is increasing rapidly for its use as a gasoline additive that enhances octane levels, particularly in North America, and the division will focus on this growing market in 1990.

The plastics division will proceed with cost-effective plans to expand production and improve both productivity and customer service. These plans include increased polyethylene production capability and the construction of a second pelletizer unit at Joffre, the addition of a hexene-based line of polyethylene resins, rationalization of polystyrene operations and increased emphasis on sales and marketing, primarily in the United States, for both polyethylene and polystyrene. The division is also structured to bring focus to the growth of its performance plastics sector.

The rubber division intends to reaffirm its leadership position in performance and specialty rubber products. Prudent expansion plans have been developed and will be put in place for key target areas and products.

Facilities in the United States

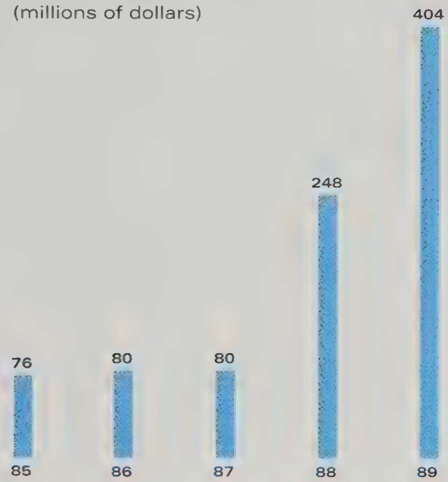
Plastics
Rubber
Performance Products

Facilities in Europe

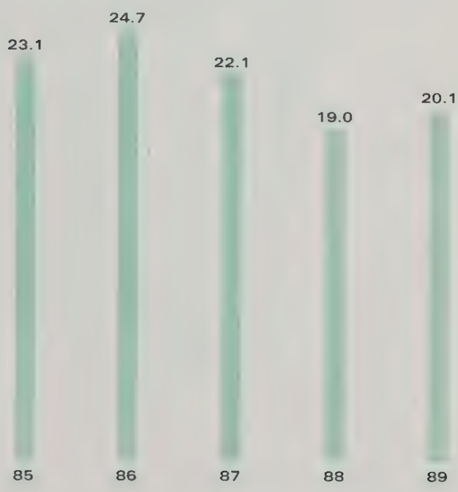
Rubber

NOVA's Alberta Gas Transmission Division contributed $88 million to net income in 1989, up 17% from $75 million in 1988, and transported record volumes of Canadian natural gas for the third consecutive year.

Alberta System Capital Expenditures
(millions of dollars)



Alberta System Unit Cost-of-Service Transportation Charge
(cents per thousand cubic feet)



Industry Perspective

The Canadian natural gas industry is on the threshold of a major expansion because of strong and growing demand for gas in the United States and steady sales growth in Canada's major gas markets of Alberta and Ontario.

NOVA's Alberta pipeline system is the primary transportation system through which gas is collected and delivered to Alberta border points for shipment to other markets. Historically, NOVA has transported more than 80% of marketed Canadian gas production.

The Alberta system is essentially full year round. Deliveries have increased by 50% in the past 10 years with new annual record volumes set in each of the past three years. NOVA estimates that annual deliveries will increase by an additional one trillion cubic feet over the next 10 years.

In Canada, growth in demand is expected to average about 2% per year over the next 10 years, generally in line with estimates of overall economic growth. Alberta and Ontario will remain Canada's dominant gas markets.

After several years of reduced sales, the market for sales to the United States turned upward in the past two years as a result of new marketing initiatives linked to deregulated prices for Canadian exports. Further increases are anticipated.

By the middle 1990s, annual Canadian gas exports to the United States are forecast to reach about 1.8 trillion cubic feet, compared with 1.35 trillion cubic feet in 1989.

Although not all current export applications will be approved, NOVA expects gas deliveries to the United States to increase by about 100 billion cubic feet per year over the years 1990-1993 and by an additional 150 billion cubic feet in 1994.

As a result, NOVA anticipates a $3 billion expansion of its Alberta pipeline system, with annual expenditures approaching $500 million through 1995.

The expansion, which is driven exclusively by customer demand on a cost-of-service basis, will be keyed to actual timing and size of gas export projects to the United States. It will increase gas delivery capability at major border points to more than nine billion cubic feet per day from the current seven billion cubic feet per day.

Review of 1989

(millions of dollars)

	1989	1988	% Change
Assets	**$2,526**	$2,358	7
Revenue	**$1,313**	$1,337	(2)
Operating Income	**$ 293**	$ 291	1

NOVA's pipeline and gas marketing businesses include the Alberta Gas Transmission Division (AGTD), 100% owned, and 50% ownership of Foothills Pipe Lines Ltd. and Pan-Alberta Gas Ltd.

Pipelines

At December 31, 1989, the AGTD system comprised 9,700 miles of pipeline, 40 compressor stations and 890 major receipt and delivery points.

On April 1, 1989, NOVA increased its rate of return on rate base to 11.83% from 11.49%, which reflected changes in the cost of capital to finance gas transmission operations. The new rate includes an increase in the after-tax rate of return on common equity to 13.5% from 13.25%. At December 31, 1989, the rate base was $1.8 billion.

NOVA transported record total volumes of natural gas within the province and to delivery points on Alberta's eastern, western and southern borders in 1989.

Total volumes rose 3% to 2.83 trillion cubic feet compared with 2.75 trillion cubic feet in 1988. Major growth centres for Alberta gas sales continued to be the midwestern United States, California and the Alberta industrial market.

Exports from Alberta totalled 2.19 trillion cubic feet, essentially equal to volumes carried in 1988. These deliveries included 519 billion cubic feet to California, and about 324 billion cubic feet to the U.S. midwest via the Foothills pipeline system. Deliveries in Alberta totalled 647 billion cubic feet, up 13% from 1988.

Capital spending for expansion of the Alberta system totalled $404 million, up 63% from $248 million in 1988.

Investment focused on increased compression capacity in new and existing compressor facilities and the construction of new pipelines to accommodate requests from natural gas shippers and producers for increased receipt and delivery capability.

Four new compressor stations and five unit additions to existing compressor stations were completed and put into operation. These facilities incorporate the latest technological innovations, including magnetic bearings and dry seals that increase safety and reduce maintenance costs by allowing compressors to operate without oil lubrication systems.

About 500 miles of pipeline were installed, including 175 miles of large-diameter pipe, which represented NOVA's largest pipeline construction program since 1981. Native employment opportunities as part of the 1989 program led to some 9,500 man-days of native employment on 110 projects.

AGTD achieved a milestone in pipeline safety during 1989, logging one million man-hours of work without a lost-time injury. This accomplishment represents a rarely achieved industry standard of excellence in North America.

Phase I of the Alaska Natural Gas Transportation System, owned and operated by Foothills, delivers Canadian gas to markets in the United States. It was built in the early 1980s as the first phase of a major system to bring Alaskan gas to markets in the lower 48 states.

At December 31, 1989, Foothills' eastern and western legs comprised 528 miles of pipeline, four compressor stations and four meter stations. NOVA's share of the average rate base for this cost-of-service business was $288 million, which earned an after-tax return of 14.25% on an approximate 25% common equity component.

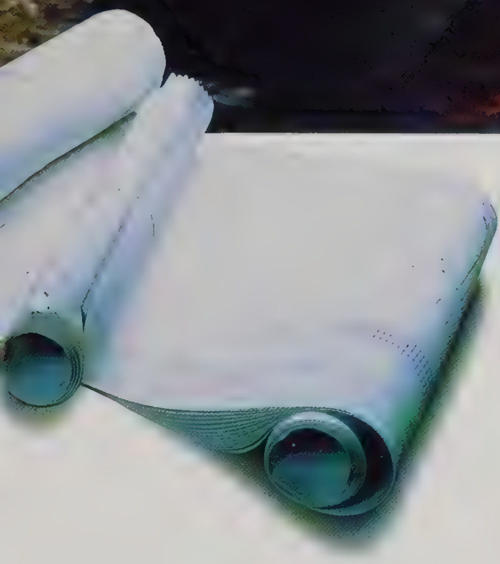
The system's western leg operated at more than 100% of firm contracted volumes and the eastern leg operated at more than 80% of firm contracted volumes in 1989.

Gas Transportation in Alberta

Alberta Gas Transportation System

Alaska Natural Gas Transportation System, Phase 1

Compressor Station



Through its 9,700-mile Alberta pipeline system, NOVA collects and transports more than 80% of marketed Canadian natural gas production for shipment to markets in Canada and the United States.

Gas Marketing

Pan-Alberta is the largest independent Canadian marketer of gas to the United States with about 26% of total Canadian exports under contract. It had total sales of 390 billion cubic feet in 1989 compared with 398 billion cubic feet in 1988. Pan-Alberta serves as a marketing agent for more than 360 Canadian gas producers. About 90% of sales are to the United States.

During 1989, Pan-Alberta reached a settlement with United Gas Pipeline Company of Houston, Texas, which resolved contract problems related to the sale of 450 million cubic feet a day of Alberta gas. In effect, the settlement continues the previous arrangements that resulted in the sale of full contract volumes, which represent about 12% of Canada's total exports.

Alberta System 1989 Gas Deliveries
(billion cubic feet — 2,834 total)

Outlook for 1990

NOVA's Alberta system, operating at record levels for the past three years, will continue to transport high volumes of gas in 1990. As a result, capital spending – in response to customer requests for increased receipt and delivery capacity – is budgeted at about $535 million in 1990.

Foothills will expand the eastern leg of its pipeline system through the addition of approximately $75 million of new facilities. This expansion is part of a four-year forecast to expand the system by 1.2 billion cubic feet a day and virtually double existing capacity. Foothills remains committed to the completion of the Alaska Natural Gas Transportation System by the middle to late 1990s. In addition, Foothills has filed an application to build a pipeline along the Mackenzie Valley to transport Canadian gas from northern fields to southern markets. This route is an alternative to Foothills' Dempster Highway project, which was filed in 1979.

Pan-Alberta expects its high sales to continue in 1990 and to strengthen in the future. Sales growth is constrained by the current capacity limits of existing pipelines to deliver more gas into the United States.

Careful selection of investments related to NOVA's main businesses, such as petroleum and international consulting, strengthens the Corporation's base of operations and provides flexibility for the future.

NOVA's investments include Husky Oil Ltd., 43% owned, and Novacorp International Consulting Inc., 100% owned.

Petroleum

Headquartered in Calgary, Alberta, Husky operates in western Canada, on Canada's East Coast offshore and in the international arena.

Husky is strategically placed in the North American energy market with net proved and probable reserves of 256 million barrels of crude oil and natural gas liquids, 1.6 trillion cubic feet of natural gas, and 8.4 million long tons of sulphur.

The company's frontier assets include interests in the Whiterose and Terra Nova fields offshore on Canada's East Coast. Internationally, Husky has interests in Libya, Indonesia, Papua New Guinea, Senegal, Vietnam and Australia. Husky markets its products directly and through retail and wholesale outlets.

In 1989, Husky concentrated on rationalization of its oil and gas properties to achieve greater efficiency and strategic control of core assets. For additional information on Husky, see page 64.

International Consulting

Novacorp provides technologically advanced engineering and operating expertise in pipeline transportation systems and petrochemicals to clients around the world. Novacorp's expertise is gained through NOVA's extensive involvement in all phases of pipeline project services and petrochemical industry activities. Novacorp Pipelines, a division of Novacorp, builds, owns and operates pipelines on a contract basis outside the parameters of NOVA's Alberta Gas Transmission Division.

In 1989, Novacorp worked on more than 140 consulting and engineering assignments in 23 countries around the world, including project management and engineering expertise in Malaysia and Turkey on two of the world's major pipeline projects, compared with about 100 assignments in 1988.

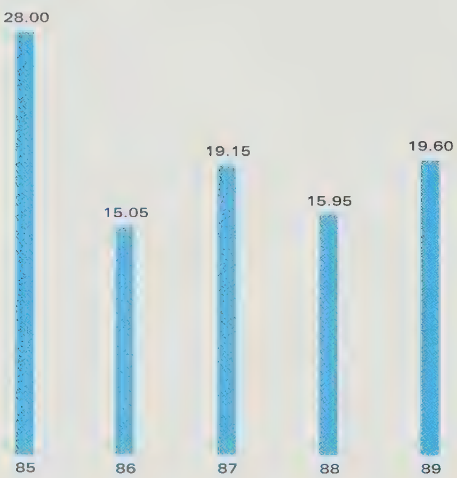
On the Malaysian project, training commitments related to pipeline operations and maintenance were initiated in Alberta during 1989 and similar training will be conducted this year. In Turkey, Novacorp has been selected, in conjunction with a Turkish company, to conduct a feasibility analysis and preliminary engineering for an 1,100-mile expansion of the pipeline system. Other major activities included new work in Jordan and Indonesia.

Outlook for 1990

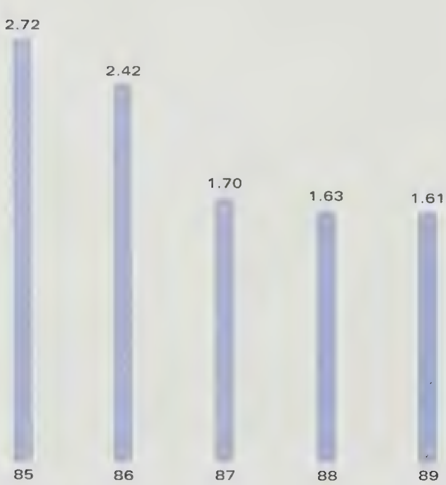
Husky will continue to pursue concentration and rationalization of its assets through acquisition and divestiture, disciplined investment and efficient operations. Long-term investments in Canada's frontier regions and international activities strategically position the company to generate strong financial performance in the medium-to long-term.

Novacorp expects international consulting activities to expand in 1990 as a result of an ongoing upturn in production-related projects.

Crude Oil Prices*
(U.S. dollars per barrel)
*West Texas Intermediate



Alberta Natural Gas*
(cents per thousand cubic feet)
*Average field price



NOVA values its international scope of operations and its ability to compete worldwide from its Canadian base. Corporate values create the base for long-term prosperity and growth.

Human Resources

The NOVA work force is highly-trained and productive. Employees share and support an entrepreneurial business style that values leadership, innovation, planning and hard work.

NOVA practises non-discriminatory hiring, compensation and employee development policies that reinforce performance as the key to career development.

Reflecting these values, an innovative employee compensation program was implemented in January 1990 to provide a competitive package that rewards performance. It includes a savings and profit sharing plan and flexible benefits package that allows employees to tailor compensation programs.

Health, Safety and Environment

NOVA is committed to the operation of its businesses at a standard that will establish the Corporation as an industry leader.

All employees practise and encourage safe work habits and environmental responsibility as integral conditions of work. Through policies and routine audits, NOVA ensures that operating units aim to meet or exceed all applicable laws and standards, while continuing to work in a productive manner. NOVA supports the environmental codes of practice as established by groups such as the Canadian Chemical Producers Association, the Canadian Petroleum Association and the Chemical Manufacturers Association in the United States.

In 1989, NOVA had capital expenditures of $30 million and operating expenditures of $21 million related to pollution abatement and control measures. In addition, NOVA expends substantial efforts in the areas of occupational and environmental health, product and process toxicology, industrial hygiene and safety, to protect NOVA's employees and the public.

Research and Technology

NOVA's business objectives are supported by a commitment to applied research and technology development.

Research allows development of value-added products that meet specific customer needs. This is an essential component of NOVA's ability to achieve and maintain its position as a preferred supplier of goods and services. Unified activities are conducted at three major research facilities in Canada and the United States to provide a comprehensive approach to specific research projects for all NOVA operations. The research group employs about 400 scientists, engineers and technical support staff.

In 1989, NOVA spent approximately $48 million on research and development activities and an additional $17 million on product support research activities related to improvements of existing products, services and processes.

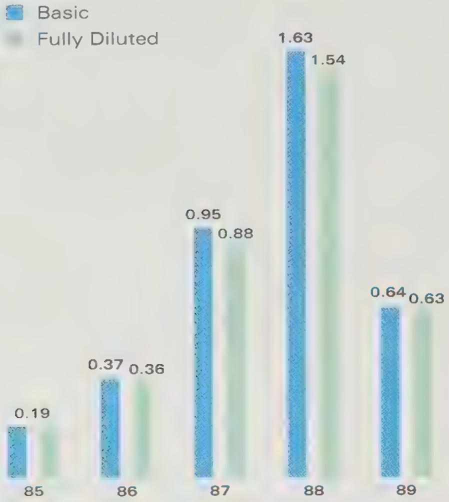
Corporate Contributions

NOVA supports non-profit activities designed to support the quality of life in the communities in which it operates.

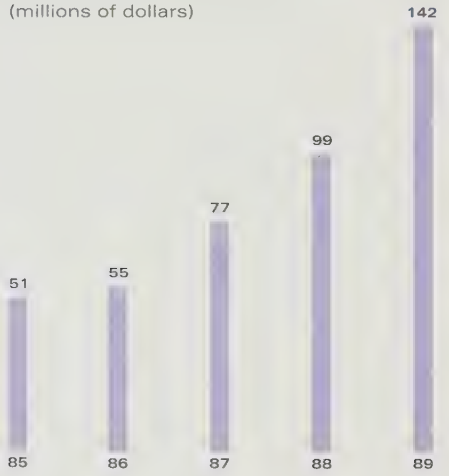
Contributions support national organizations and reflect NOVA's international business activities. Emphasis is directed to health and welfare, education, the environment, arts and culture and recreation.

In 1989, major initiatives included a program to match employee contributions to charities such as the United Way, support for litter clean-up campaigns and donations to universities.

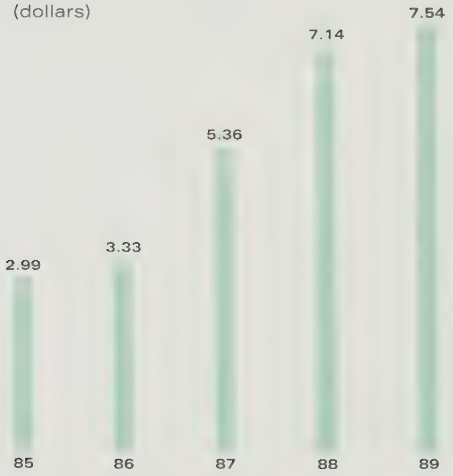
Net Income Per Common Share for the Year*
(dollars)
*Before extraordinary items



Common Share Dividends for the Year
(millions of dollars)



Shareholders' Equity Per Common Share
(dollars)



NOVA welcomes questions from shareholders and potential investors, which may be directed to senior officers or to the Investor Relations Manager by writing or telephoning the Corporation's world headquarters in Calgary, Alberta, Canada.

NOVA's toll-free number, (800) 661-8686, may be used outside of Calgary by callers in Canada and the continental United States. Literature on the Corporation's business, including the Form 10-K, may be obtained by writing or calling the toll-free number.

Share Issues

NOVA common shares are listed on the Toronto, Montreal, Alberta, New York and London stock exchanges and the Swiss stock exchanges located in Geneva, Zurich and Basle.

At December 31, 1989, approximately 299 million common shares were outstanding and there were approximately 43,000 registered shareholders of common shares.

In addition, five preferred share issues were outstanding. These issues are listed on the Toronto, Montreal (7.60% and 9-1/8% only) and Alberta stock exchanges.

Share Registration

Common shares are transferable at the Vancouver, Edmonton, Calgary, Regina, Winnipeg, Toronto and Montreal offices of National Trust Company; the Canadian Imperial Bank of Commerce (New York); and the Canadian Imperial Bank of Commerce in London, England.

Preferred shares are transferable at the Montreal Trust Company as follows: in Vancouver, Calgary, Edmonton, Regina, Winnipeg, Toronto and Montreal for all share issues; and in Halifax for 7.60% and 9-1/8% preferred shares only.

NOVA's 1996 warrants are transferable at the Vancouver, Edmonton, Calgary, Regina, Winnipeg, Toronto, Montreal and Halifax offices of Montreal Trust Company.

Share Designations

NOVA's share issues are designated in newspaper listings as follows:

Nova		f	Common	
Nova	E	p	7-3/4%	Preferred
Nova	F	p	9-3/4%	Preferred
Nova	G	p	9.76%	Preferred
Nova	H	p	7.60%	Preferred
Nova	O	p	9-1/8%	Preferred
Nova	W		1996	Warrants

Dividend Reinvestment Plan

NOVA's dividend reinvestment and share purchase plan provides a convenient method for shareholders to acquire common shares by reinvestment of dividends on all or some of their NOVA common and preferred shares without brokerage or administrative fees. The plan also allows shareholders to make quarterly cash payments to buy shares.

Additional information may be obtained from: National Trust Company, Corporate Trust Services, Suite 1008, 324 Eighth Avenue S.W., Calgary, Alberta, T2P 3B2. Information may also be obtained from NOVA's Investor Relations Manager.

Non-Resident Investors

Dividends paid to shareholders outside of Canada are subject to Canadian non-resident withholding tax, generally at the rate of 15% for the United States and other countries where Canadian tax treaties apply, and 25% for non-tax treaty countries. Certain exemptions or refunds related to the tax may be available to residents of the United States and other countries. Common shareholders should consult their tax advisors.

This discussion and analysis of financial condition and results of operations for the three years ended December 31, 1989, should be read in conjunction with the consolidated financial statements and related notes in this annual report. NOVA reports its financial statements in five business segments: petrochemicals, plastics and rubber, pipelines, gas marketing, petroleum and other businesses.

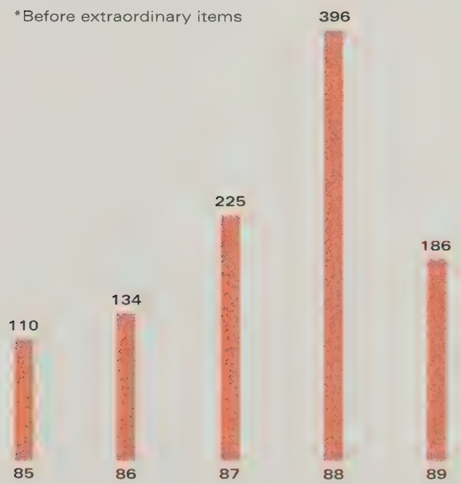
Results of Operations

From an earnings perspective, 1989 was disappointing for NOVA. The record earnings in 1988, which were due to strong petrochemical and plastic prices, were followed by an earlier-than-expected cyclical downturn in these businesses. Average selling prices for the Corporation's major petrochemical and plastic products declined about 20% from those experienced in 1988. In the fourth quarter of 1989, average selling prices were 20% to 45% lower than the prices prevailing in late 1988 and early 1989. Also in 1989, the Corporation began to assimilate and rationalize the various Polysar operations, a process which will continue in 1990. Pipeline earnings increased, reflecting the expansion of the Alberta Gas Transmission Division pipeline system.

Consolidated Net Income

(millions of dollars; except for per share data)	1989	1988	1987
Net Income	$ 186	$ 396	$ 225
Preferred Share Dividend Entitlement	(18)	(22)	(49)
Net Income to Common Shareholders	$ 168	$ 374	$ 176
Average Common Shares (millions)	261	229	185
Net Income Per Common Share			
Basic	$ 0.64	$ 1.63	$ 0.95
Fully Diluted	$ 0.63	$ 1.54	$ 0.88

Consolidated Net Income for the Year*
(millions of dollars)
*Before extraordinary items



Consolidated net income of $186 million in 1989 was down $210 million compared with 1988, principally as a result of the decline in selling prices for petrochemical and plastic products and higher interest expense due to increased debt levels as a result of investments in 1988. Consolidated net income in 1988 of $396 million reflects the strong performance from NOVA's petrochemical and plastics businesses. Acquisitions in this business in 1988 added $136 million of net income in that year. The 1987 net income of $225 million includes a gain of $57 million realized on the sale of a portion of the Husky investment.

The decline in net income per common share in 1989 was also affected by the increase in weighted average common shares outstanding resulting from the issuance of common shares in 1988 as part of the consideration on the acquisition of Polysar and on the rights offering in September 1989. At the end of 1989 the Corporation had 299 million common shares outstanding.

The increase in average common shares outstanding in 1988 compared with 1987 was a result of the issuance of common shares on the acquisition of Polysar and on the conversion of preferred shares and the exercise of warrants.

Preferred share dividend entitlement decreased by $27 million in 1988 compared with 1987 as a result of the conversion and redemption of preferred shares in 1987 and 1988.

In September 1988, NOVA acquired Polysar. The acquisition was accounted for by the purchase method of accounting. The consolidated financial statements include the effect of 100% ownership of Polysar from July 1, 1988, the date on which NOVA, for accounting purposes, effectively controlled Polysar. In addition, equity earnings of $29 million from Polysar were recorded for the period prior to July 1, 1988, based on NOVA's ownership during that period. In the third quarter of 1988, NOVA increased its ownership in the methanol business from 50% to 100%.

The effects on net income arising from differences between accounting principles generally accepted in Canada and the United States are outlined in Note 19 to the consolidated financial statements.

Change in Accounting Policy

In December 1989, the Corporation changed its policy of accounting for oil and gas assets from the full cost method to the successful efforts method (see Note 1 to the consolidated financial statements). Successful efforts is the method most commonly used by corporations of like size in the petroleum industry.

The accounting change, which was applied retroactively to prior years, reduced 1989 net income by $9 million (3 cents basic and fully diluted), reduced 1988 net income by $28 million (13 cents basic and 12 cents fully diluted) and increased 1987 net income by $46 million (25 cents basic and 21 cents fully diluted) from that previously reported. Reinvested earnings were reduced by $137 million for years prior to 1987.

The adjustment in 1989 is net of a gain of $13 million, after tax, realized on the sale of oil and gas properties by Husky. Under the successful efforts method, gains or losses on the sale of oil and gas assets are included in earnings. Under the full cost method, the proceeds from the sale of oil and gas assets are credited against capitalized costs and a gain or loss is only recognized in earnings when this results in a significant impact on future depletion rates.

The adjustment in 1987 includes a gain of $57 million on the sale of 57% of the Husky investment. NOVA had previously reported a loss of $8 million in 1986 on this transaction which was completed in 1987. The retroactive adjustment to successful efforts reduced the carrying value of the Husky investment resulting in a gain on the sale.

Petrochemicals, Plastics and Rubber

In 1989 the Corporation reorganized this segment into three divisions: the Petrochemicals Division, the Plastics Division and the Rubber Division. Financial information and discussion on each of these divisions follows:

PETROCHEMICALS DIVISION

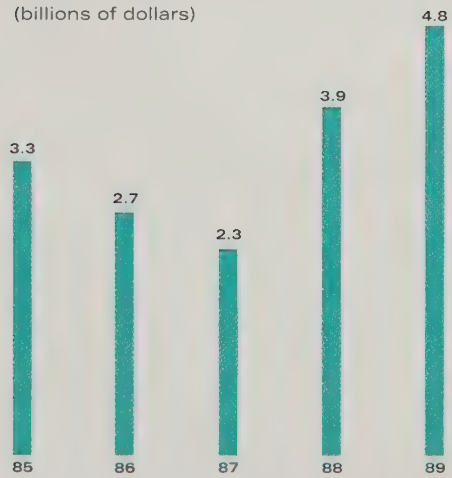
(millions of dollars; except for selling prices)		1989	1988	1987
Revenue				
Ethylene		$ 1,582	$ 1,195	$ 675
Styrene		359	223	-
Methanol		156	88	-
		$ 2,097	$ 1,506	$ 675
Intrasegment Eliminations		(664)	(479)	(131)
		$ 1,433	$ 1,027	$ 544
Operating Income				
Ethylene		$ 300	$ 235	$ 134
Styrene		49	65	-
Methanol		12	35	-
		$ 361	$ 335	$ 134
Depreciation		$ 133	$ 85	$ 51
Capital Expenditures		$ 168	$ 77	$ 29
Identifiable Assets		$ 2,360	$ 2,506	$ 897
Average Realized Selling Price*				
Propylene (U.S. cents/lb)	– Annual	$ 0.16	$ 0.15	$ 0.12
	– 4th Qtr.	0.12	0.16	0.16
Styrene (U.S. cents/lb)	– Annual	0.38	0.50	0.39
	– 4th Qtr.	0.29	0.51	0.44
Methanol (U.S. cents/USG)	– Annual	0.42	0.52	0.33
	– 4th Qtr.	0.31	0.57	0.37

*Ethylene average selling prices have been excluded because of concern for customer confidentiality

The increase in revenue and operating income over the three years was primarily due to the acquisition and consolidation of the ethylene and styrene operations of Polysar in mid-1988 and the methanol business in August 1988.

In the ethylene and styrene industries no significant new capacity came on stream in 1989. However, minor capacity additions, when coupled with reduced demand, combined to significantly reduce the high margins experienced in late 1988 and early 1989. Prices for methanol in 1989 came down from the levels of 1988, reflecting increases in industry capacity coupled with slower growth in demand.

Consolidated Revenue for the Year
(billions of dollars)



PLASTICS DIVISION

(millions of dollars; except for selling prices)	1989	1988	1987
Revenue			
Polyethylene	$ 593	$ 733	$ 477
Polystyrene	467	261	-
Other	61	34	-
	$ 1,121	$ 1,028	$ 477
Operating Income			
Polyethylene	$ 49	$ 270	$ 69
Polystyrene	42	40	-
Other	(2)	(1)	-
	$ 89	$ 309	$ 69
Depreciation	$ 27	$ 19	$ 11
Capital Expenditures	$ 68	$ 24	$ 56
Identifiable Assets	$ 551	$ 645	$ 298
Average Realized Selling Prices			
Polyethylene (U.S. cents/lb) – Annual	$ 0.41	$ 0.51	$ 0.33
– 4th Qtr.	0.33	0.54	0.39
Polystyrene (U.S. cents/lb) – Annual	0.55	0.62	0.48
– 4th Qtr.	0.46	0.60	0.54

The increase in revenue over the three years was primarily due to the acquisition and consolidation of the polystyrene and other plastics businesses of Polysar in mid-1988.

Operating income in 1989 decreased by $220 million compared with 1988. In 1987 and 1988, the growth in demand for polyethylene throughout the world exceeded the capacity to produce polyethylene. This allowed producers to raise product prices. The combination of higher selling prices, reduced production costs and expanded production, improved the profitability of this business in 1987 and 1988. In 1989, reduced demand and some new capacity caused selling prices to decline.

Beginning in 1987, strengthening demand led to improved selling prices for polystyrene. In 1989, oversupply and reduced demand caused prices to decline.

The strengthening of the Canadian dollar versus the U.S. dollar also negatively affected the contribution from the plastics division in 1989.

RUBBER DIVISION

(millions of dollars)	1989	1988	1987
Revenue	$ 812	$ 417	$ –
Operating Income	$ 61	$ 37	$ –
Depreciation	$ 55	$ 31	$ –
Capital Expenditures	$ 81	$ 44	$ –
Identifiable Assets	$ 1,432	$ 1,393	$ –

The financial results of the rubber division were first consolidated in mid-1988. Some product lines were affected by production problems in 1989 at plant sites in Canada and the United States. These problems were corrected late in the year.

Profitability was reduced by competitive pressure on volumes and margins. Operating income in 1989 was also negatively affected by the strengthening of the Canadian dollar versus the U.S. dollar.

Pipelines

(millions of dollars)	1989	1988	1987
Revenue			
Alberta Gas Transmission Division	$ 569	$ 524	$ 517
Foothills Pipe Lines	90	92	94
Trans Québec & Maritimes Pipeline	35	36	38
Other	8	8	5
	702	660	654
Intrasegment Eliminations	(44)	(33)	(31)
	658	627	623
Intersegment Eliminations	(120)	(121)	(131)
	$ 538	$ 506	$ 492
Operating Income			
Alberta Gas Transmission Division	$ 204	$ 201	$ 228
Foothills Pipe Lines	56	55	58
Trans Québec & Maritimes Pipeline	24	25	26
Other	4	5	4
	$ 288	$ 286	$ 316
Contribution to Net Income			
Alberta Gas Transmission Division	$ 88	$ 75	$ 74
Foothills Pipe Lines	16	17	18
Trans Québec & Maritimes Pipeline	6	7	7
Other	1	1	3
	$ 111	$ 100	$ 102
Capital Expenditures*			
Alberta Gas Transmission Division	$ 398	$ 237	$ 72
Other	3	5	13
	$ 401	$ 242	$ 85
Identifiable Assets			
Alberta Gas Transmission Division	$ 1,896	$ 1,553	$ 1,381
Foothills Pipe Lines	457	458	480
Other	14	236	268
	$ 2,367	$ 2,247	$ 2,129

*Net of retirements

Consolidated Operating Income for the Year
(millions of dollars)

The pipeline business, which is regulated by various governmental or regulatory bodies, operates under cost-of-service billing arrangements. The net income contribution from this business is discussed in more detail under Cost-of-Service Business (see pages 25 and 26).

Operating income in 1989 of $288 million remained at the same level as 1988. In 1988, operating income was $30 million lower compared with 1987 as a result of lower billings for income taxes, which are a recoverable operating cost and thus have no impact on net income.

Net income from the Alberta Gas Transmission Division in 1989 increased by $13 million compared with 1988. The increase was due to the increase in the average rate base and the increase in the equity return from 13.25% to 13.50% in April 1989. Net expenditures for pipeline expansion within the Alberta Gas Transmission Division increased by $161 million in 1989 compared with 1988. Expenditures in this division are expected to be $535 million in 1990. The expansion of the division's pipeline system is in response to customer demand to transport increasing volumes of natural gas. Based on current trends in customer demand, and assuming a favourable regulatory environment for Canadian gas export sales, NOVA anticipates a $3 billion expansion of its Alberta pipeline system, with annual expenditures approaching $500 million through 1995. Capital expenditures made in the expansion of the division's pipeline system will generate higher earnings in the future. Moderate capital expenditures are forecast for Foothills in 1990. It is the intention of the Corporation to sell its investment in Trans Québec & Maritimes Pipeline Inc.

Gas Marketing

(millions of dollars; except for volumes and prices)	1989	1988	1987
Revenue	$ 775	$ 832	$ 675
Operating Income	$ 5	$ 5	$ 4
Natural Gas Sales Volumes (bcf)	390	398	293
Natural Gas Prices (per mcf)	$ 1.99	$ 2.09	$ 2.31

NOVA's gas marketing operations are conducted by Pan-Alberta, a 50.005% owned subsidiary. Pan-Alberta acts as an agent for gas producers in contracting for the purchase of natural gas throughout Alberta and for the sale of natural gas to markets outside of Alberta. The purchase agreements do not involve take-or-pay liabilities. Although substantial revenue is reported for this business, the contribution to NOVA's operating income is relatively small.

Petroleum

NOVA's petroleum segment consists of a 43% investment in Husky, a major Canadian oil and gas company. In the fourth quarter of 1989, the Corporation deconsolidated its investment in Novalta Resources Inc., a wholly-owned oil and gas company, as it is NOVA's intention to sell this investment.

In 1989, NOVA incurred a loss of $8 million from its investment in Husky, which is accounted for on an equity basis. The loss was $21 million, before NOVA's $13 million share of a gain on the sale of oil and gas properties, which has been reported as a gain on investments. In 1989, the strength of the Canadian dollar relative to the U.S. dollar and increased interest costs offset the recovery of oil prices.

In 1988, the loss from Husky was $21 million and in 1987 Husky contributed a marginal profit after non-operating items.

Selected operating data for Husky is provided in the following table. Financial information on Husky, utilizing the successful efforts method of accounting, is disclosed in Note 4 to the consolidated financial statements. Information on Husky's landholdings and reserves is disclosed on pages 64 and 65.

	1989	1988	1987
Proved Reserves*			
Crude Oil and Natural Gas Liquids (millions of barrels)	214	182	85
Natural Gas (bcf)	1,320	1,274	323
Sulphur (thousands of long tons)	7,910	9,880	400
Average Realized Selling Prices			
Heavy Gravity Crude Oil (per barrel)	$ 13.24	$ 9.57	$ 16.77
Light and Medium Gravity Crude Oil (per barrel)	$ 20.56	$ 16.08	$ 22.00
Natural Gas Wellhead (per mcf)	$ 1.42	$ 1.46	$ 1.55
Sulphur (per long ton)	$ 69.84	$ 81.33	$118.40

*Husky's share of proved developed and undeveloped reserves, net of royalties

Average gross daily liquids production in 1989 was 53,000 barrels compared with 48,000 barrels in 1988 and 42,000 barrels in 1987. The main reason for the increase was the acquisition of Canterra in September 1988. Average prices for heavy gravity crude oil in 1989 (42% of gross daily liquids production in 1989) were up 38% from 1988, and down 21% from 1987. Average prices for light and medium gravity crude oil in 1989 (58% of gross daily production in 1989) were up 28% over 1988 and down 7% from 1987.

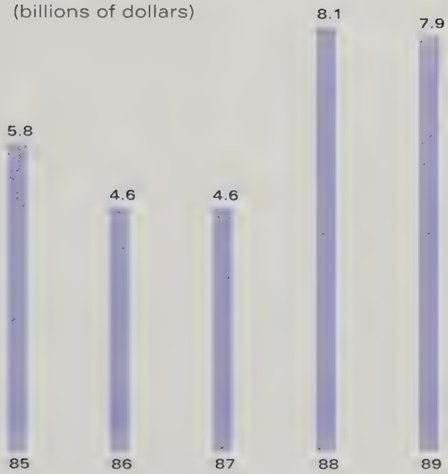
The average wellhead price received for natural gas in 1989 was 3% and 8% lower when compared with prices received in 1988 and 1987 respectively. Sulphur prices in 1989 were down 14% and 41% per long ton from 1988 and 1987 respectively. Sulphur sales volumes declined in 1989 due to lower demand from export customers. Contribution from downstream operations in 1989 was down compared with 1988 and 1987 due to pressure on margins from higher crude oil costs.

Cost-of-Service Business

The Corporation's income and cash flow within the pipeline segment and a substantial portion of the Alberta petrochemicals division are generated from cost-of-service operations. These businesses, which are regulated by various governmental or regulatory bodies, operate under billing arrangements which provide for the recovery of reasonable and necessary operating expenses, costs of feedstock and fuel, depreciation, amortization, income and other taxes, net foreign exchange gains and losses in respect of debt service and an assured return on the investment. Accordingly, the income contribution is entirely dependent on the level of investment and the return on that investment. (See the supplemental information on cost-of-service activities on pages 60 and 61.)

The investment and return on these businesses for 1987 through 1989 were as follows:

Consolidated Assets at Year End
(billions of dollars)



	NOVA's Share of Average Investment 1989	1988	1987	Deemed Common Equity	Net Income 1989	1988	1987
Pipelines	(millions of dollars)				(millions of dollars)		
Alberta Gas Transmission Division							
Return on Common Equity(1)	$1,526	$1,380	$1,342	32%	$ 66	$ 59	$ 57
Preferred Equity					9	10	15
Plant Under Construction					13	6	2
					88	75	74
Foothills Pipe Lines							
Phase I(2)	$ 288	$ 306	$ 324	25%	12	12	13
Phase II					4	5	5
					16	17	18
TQM Pipeline(3)	$ 185	$ 192	$ 199	25%	6	7	7
Other					1	1	3
					111	100	102
Petrochemicals Division							
Ethylene Plants(4)	$ 614	$ 628	$ 642		35	36	36
Other					6	7	5
					41	43	41
Net Income Contribution					$ 152	$ 143	$ 143
Identifiable Assets					$2,896	$2,769	$2,663

(1) After-tax return 1987 to 1988 – 13.25%; 1989 – average of 13.44%.
(2) After-tax return 1987 to 1989 – 14.25% plus an incentive return of 2.00%
(3) After-tax return 1987 – 13.50%; 1988 and 1989 – 13.75%.
(4) After-tax return is 20% on a deemed equity position which approximated 28.5% in 1987 to 1989.

Interest

(millions of dollars)	1989	1988	1987
Interest Expense			
Cost-of-Service	$ 201	$ 182	$ 188
Non-Cost-of-Service	295	179	69
	$ 496	$ 361	$ 257
Average Outstanding Debt(1)			
Cost-of-Service	$ 1,833	$ 1,710	$ 1,700
Non-Cost-of-Service	2,501	1,550	735
	$ 4,334	$ 3,260	$ 2,435
Average Interest Rates			
Cost-of-Service	11%	10 5/8%	11%
Non-Cost-of-Service	11 3/4%	11 1/2%	9 3/8%
Consolidated	11 3/8%	11%	10 1/2%
Non-Cost of Service Debt(1) (at year end)			
Fixed Rate	$ 796	$ 759	$ 408
Variable Rate(2)	1,411	2,015	424
	$ 2,207	$ 2,774	$ 832

(1) Includes current bank loans but excludes subsidiary term preferred shares.
(2) The Corporation has entered into a number of interest rate exchange agreements that fix the interest rate on $705 million of variable rate debt at rates of 10% to 10-3/4% for periods of 3 to 28 months (average 11 months) from December 31, 1989.

The increase in interest expense from 1987 results from higher outstanding debt. Cost-of-service debt has increased due to the expansion of the Alberta Gas Transmission Division pipeline facility. The interest expense for this business is fully recovered from customers. The increase in non-cost-of-service debt in 1988 is due to the acquisition of Polysar.

Gain (Loss) on Investments

During 1989, NOVA announced that it planned to sell its investment in Novalta Resources Inc., a wholly-owned oil and gas company, and in Grove Italia S.p.A., a wholly-owned valve manufacturing business in Italy and the United States, its 50% interest in Trans Québec & Maritimes Pipeline Inc. (TQM), which operates a pipeline in Quebec, and its 50% interest in Western Star Trucks Inc., a heavy truck manufacturer. The Corporation deconsolidated these investments at December 31, 1989, and recorded the investments as an asset held for sale, within investments and other assets, at the lower of net realizable value and carrying value, resulting in a charge against net income of $17 million in 1989 in respect of TQM and Western Star. This was partially offset by the Corporation's share of a gain on the sale of oil and gas properties by Husky.

In 1988, an $8 million after-tax gain on the sale of investments was offset by a $4 million after tax loss on the sale of an investment in a telecommunication company.

In 1987, a net after-tax gain of $6 million from the sale of investments was offset by a $22 million after-tax write-down on the closure of a compressed natural gas business.

In 1987 after giving effect to the retroactive accounting change, a gain of $57 million after tax was recorded relative to the sale of a portion of the Corporation's investment in Husky.

Liquidity and Capital Resources

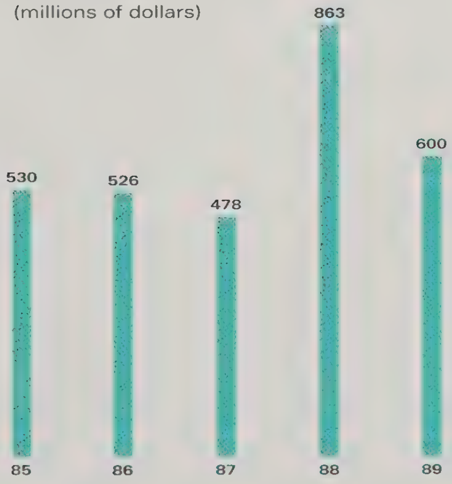
Cash flow from operating activities of $796 million in 1989 was down $42 million from 1988. Funds from operations were down by $263 million due to the decline in income from the petrochemicals, plastics and rubber segment and higher interest expense due to increased debt levels as a result of investments made in 1988. This was partially offset by cash derived from a reduction in working capital investment which was due principally to the sale of trade receivables in 1989 which generated about $180 million. The increase in cash from operating activities in 1988 compared with 1987 came from the improvement in NOVA's petrochemicals, plastics and rubber segment, of which Polysar contributed about $240 million.

In investment activities, capital expenditures increased over the three years as a result of the expansion of the Alberta pipeline system and the effect of consolidating Polysar in 1988. Net capital expenditures for the Alberta Gas Transmission Division were $398 million in 1989, $237 million in 1988 and $72 million in 1987.

Capital expenditures within petrochemicals, plastics and rubber of $317 million in 1989, $145 million in 1988 and $85 million in 1987, were for debottlenecking of existing facilities and plant improvements and expansion. Capital expenditures for 1990 are expected to be about $840 million, of which $535 million will be for expansion of the Alberta Gas Transmission Division facilities and $280 million will be for improvements and expansion of facilities in the petrochemicals, plastics and rubber segment.

Other significant investment activities over the three-year period included the acquisition of Polysar and the methanol business in 1988,

Cash from Operations for the Year
(millions of dollars)



for a net cash expenditure of $926 million and the investment of $387 million in Husky of which $172 million in 1988 related to partially funding that company's acquisition of Canterra and $215 million in 1987 related to the increase in NOVA's investment to 43%. Cash inflows were realized on the sale of a portion of the Husky investment in 1987 for $359 million. In 1988 and 1989, the sale of non-core investments generated cash inflows of $86 million and $143 million respectively.

Financing activities over the three-year period to supplement cash from operations for the investment program and to refinance certain long-term obligations consisted of the following:

- $1.0 billion in common equity. A common share rights offering in 1989 generated $449 million which was used to redeem $240 million of term preferred shares of a Polysar subsidiary and to reduce long-term debt; in 1988 shares valued at $372 million were issued on the acquisition of Polysar and $150 million was raised through the issue of convertible debentures.
- $2.3 billion of long-term debt.

The purchase of investments in 1988, including the refinancing of $600 million of Polysar preferred shares, added $1.3 billion to long-term debt; expansion of the Alberta Gas Transmission Division investment rate base added about $500 million over the three-year period.

Cash flow from operations, the issuance of common equity and the sale of non-core investments provided the cash to repay $1.6 billion of long-term debt over the three-year period.

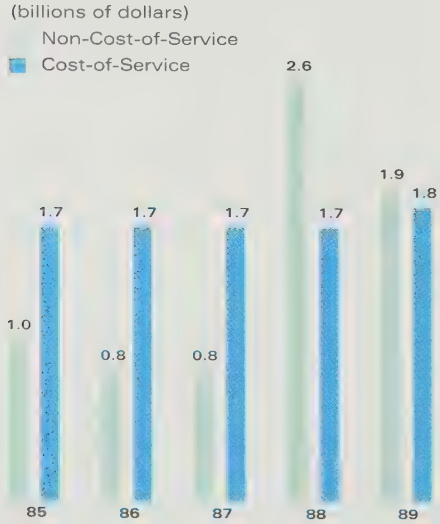
Dividends to the Corporation's shareholders totalled $407 million over the three-year period. The increase of $39 million in 1989 reflects the effect of the additional common shares issued on the Polysar acquisition in 1988 and on the rights offering in 1989 and the increase in the dividend rate in 1989. The quarterly dividend on common shares was increased in the second quarter of 1989 to 13 cents a share (52 cents on an annual basis) from 11 cents a share.

The capitalization of the Corporation over the three-year period is outlined below:

(millions of dollars)	December 31 1989		1988		1987	
	$	%	$	%	$	%
Cost-of-Service						
Long-Term Debt(1)	$ 1,821	65	$ 1,745	65	$ 1,675	65
Preferred Shares	104	4	116	4	125	5
Common Equity	881	31	824	31	771	30
	2,806		2,685		2,571	
Non-Cost-of-Service						
Long-Term Debt(1)	1,939	55	2,799(3)	71	760	54
Preferred Shares	100	3	100	3	204	15
Common Equity	1,478	42	1,031	26	441	31
	3,517		3,930		1,405	
Consolidated						
Long-Term Debt(1)	3,760	60	4,544	69	2,435	61
Preferred Shares	204	3	216	3	329	8
Common Equity(2)	2,359	37	1,855	28	1,212	31
	$ 6,323		$ 6,615		$ 3,976	

(1) Includes current portion.
(2) Includes NOVA's $150 million convertible debentures.
(3) Includes $240 million of subsidiary term preferred shares.

Consolidated Long-Term Debt
(billions of dollars)



The increase in cost-of-service long-term debt over the three-year period is due to financing requirements for the expansion of the Alberta Gas Transmission Division investment rate base. The 1989 year-end figure reflects a reduction of $140 million on the deconsolidation of TQM.

Non-cost-of-service long-term debt was increased by $2.3 billion in 1988, comprising $1.3 billion related to the net acquisition cost of investments and the refinancing of their preferred shares, and $1 billion of long-term debt and term preferred shares of these investments which was added on consolidation. Cash flow in 1989 and in the last quarter of 1988 and the deconsolidation of $90 million of long-term debt related to certain investments which are held for sale, reduced non-cost-of-service long-term obligations by $860 million to $1.9 billion by December 31, 1989.

The common equity of the Corporation at the end of 1989 was $2.4 billion, of which $1.5 billion related to non-cost-of-service businesses.

Working capital decreased by $486 million in 1989. The change resulted principally from the sale of trade receivables in 1989, for net proceeds of about $180 million which were used to repay long-term debt, and an accrual of $63 million in current liabilities for the expected costs related to the rationalization of the Polysar investment. In 1989, the Corporation made efforts to reduce other working capital investment as well.

NOVA's cash requirements are met through internal cash flow from operations and the issuance of long-term debt and common equity. NOVA has committed credit facilities with five Canadian banks aggregating $1.25 billion at December 31, 1989, of which about $840 million was unutilized. The credit facilities expire between 1991 and 1995 but may be renegotiated at those dates.

In conjunction with the term credit facility established with a syndicate of Canadian chartered banks to fund the Polysar acquisition, NOVA has committed to apply all of the net income from this investment (as adjusted for non-cash items, scheduled debt repayments, interest on the term credit facility and limited capital expenditures) to service the principal repayment obligations under the term credit facility. NOVA is not, however, required to contribute any additional amounts to service principal or interest on the term credit facility which is non-recourse to the Corporation.

The Corporation intends to refinance the Polysar acquisition facility on a long-term basis when the facility expires in January 1991.

At current energy and petrochemicals and plastics price levels, NOVA believes that cash flow from operations, the sale of non-strategic investments and the availability of credit facilities, will be sufficient to finance its debt repayment obligations and ongoing capital spending programs.

Business, Economic and Environmental Regulatory Conditions

NOVA's profit performance is influenced by fluctuations in selling prices for its products, interest rates and foreign currency exchange rates and demands on its capital resources are increasingly affected by environmental regulations.

The Corporation's products are sold in highly competitive markets, principally in Canada, the United States, Europe and the Asia Pacific region. Supply and demand conditions for individual commodities are subject to significant fluctuations which may have a material impact on prices and margins and NOVA's earnings.

Interest Rates

The Corporation had non-cost-of-service debt of $2.2 billion at December 31, 1989. Of this amount, interest rates are fixed, directly or indirectly, on approximately $1.5 billion. The Corporation's net income is also exposed to interest rate fluctuations with respect to its equity investment in Husky, which is 43% owned. Husky had approximately $770 million in floating rate debt at December 31, 1989. Based on the floating rate debt exposure at December 31, 1989, a change in interest rates of 1% is estimated to affect NOVA's annual cash flow by approximately $10 million and annual net income by approximately $6 million.

Foreign Currency

NOVA's businesses are conducted, in part, in an international environment. Prices for many of the Corporation's petrochemicals, plastics and rubber products and a significant portion of its interest in crude oil revenues are established in terms of the U.S. dollar. Based on 1989 levels of production and distribution of revenues, an increase in the value of the Canadian dollar of one cent Canadian, in United States dollar terms, is estimated to decrease the Corporation's annual cash flow by approximately $14 million and decrease annual net income by approximately $8 million. A decrease in the value of the Canadian dollar would have the reverse effect.

Environmental Regulations

It is impossible to predict precisely future developments in environmental regulations, but NOVA anticipates that future regulations and the enforcement of existing regulations will become increasingly stringent and that environmental compliance costs will increase in the future. NOVA does not expect that environmental laws and regulations will affect it differently from the rest of the North American chemical and refining industry. The Corporation is conducting an environmental audit to determine the extent to which actions are required at various sites in order to bring operations at the sites into full compliance with existing and anticipated future environmental legislation.

NOVA's pollution control capital expenditure estimates of $60 million and $62 million for 1990 and 1991 respectively, and capital expenditures for future years will be affected by the findings of the environmental audit which remain uncertain at this time.

Exchange Rates	1989	1988	1987	1986	1985
$1.00 U.S. = $Cdn.(1)					
High	$1.2115	$1.3008	$1.3797	$1.4465	$1.4070
Low	1.1558	1.1843	1.2951	1.3639	1.3180
Average Noon Rate	1.1842	1.2307	1.3260	1.3894	1.3652
Year End	1.1585	1.1925	1.2993	1.3805	1.3983
$1.00 Cdn. = $U.S.(2)					
High	$.8652	$.8444	$.7721	$.7332	$.7587
Low	.8254	.7688	.7248	.6913	.7107
Average Noon Rate	.8445	.8125	.7541	.7197	.7325
Year End	.8632	.8386	.7696	.7244	.7151

(1) Exchange rate for U.S. dollars in terms of Canadian dollars, based on the spot rate for U.S. dollars as reported by the Bank of Canada.
(2) Exchange rate for Canadian dollars in terms of U.S. dollars, based on the spot rate for U.S. dollars as reported by the Bank of Canada.

Responsibility for Financial Statements

MANAGEMENT

The management of NOVA Corporation of Alberta is responsible for the preparation and presentation of the consolidated financial statements and related information included in the annual report. The December 31, 1989, consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada applied, after giving retroactive effect to the change in method of accounting for oil and gas assets as explained in Note 1 to the consolidated financial statements, on a consistent basis and have been examined by Ernst & Young, independent auditors, whose opinion is included herein.

The preparation of the financial information contained in the annual report necessarily involves the use of estimates and judgements which have been reached based on a careful assessment of data made available through the Corporation's information systems.

NOVA maintains a system of internal accounting controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records. The system is subject to continuous review through a corporate-wide internal audit program with appropriate management follow-up action. Management recognizes the limits that are inherent in all systems of internal accounting control. However, management believes that NOVA has established an effective and responsive system of internal accounting controls, through the careful selection of employees, the division of responsibilities and the application of formal policies and procedures.

Ernst & Young, an independent firm of chartered accountants, has been engaged, as approved by a vote of the shareholders at the Corporation's most recent annual general meeting, to examine NOVA's consolidated financial statements in accordance with generally accepted auditing standards and to determine that in their opinion the consolidated financial statements present fairly the financial position, results of operations and changes in financial position of NOVA and its subsidiaries. Ernst & Young determines the audit scope, tests the accounting records and transactions and performs such other audit procedures as they deem appropriate. Ernst & Young's report on the consolidated financial statements appears in the annual report.

NOVA's management believes that the system of internal accounting controls, review procedures and established policies provide reasonable assurance that the Corporation's operations are conducted in conformity with a high standard of business conduct.

S.R. Blair
Chairman and Chief
Executive Officer

J.H. Butler
President

W.G. Wilson
Executive Vice President and
Chief Financial Officer

A.T. Poole
Vice President and Controller

AUDIT COMMITTEE

The NOVA Audit Committee reviews and monitors the financial reporting process on behalf of the Board of Directors. The committee, which is composed entirely of directors independent of management, meets quarterly to review the Corporation's unaudited interim financial statements before distribution to shareholders and regulatory authorities. The committee also meets to review the annual financial statements and recommends their approval to the Board of Directors. The audit committee reviews reports prepared by the Corporation's internal and external auditors relating to its accounting policies and procedures as well as its internal controls. The committee reviews the Corporation's annual information reports prepared for various regulatory authorities and all prospectuses related to the issue of securities by the Corporation prior to filing with such regulatory authorities. The committee reviews with management the accounting policies and procedures employed by the Corporation and related matters of financial disclosure. The committee meets independently with internal auditors and external auditors to review the involvement of each in the financial reporting process and to consider the results of their audits. The audit committee recommends the appointment of the Corporation's external auditors, who are elected annually by the Corporation's shareholders.

P. L. P. Macdonnell

Chairman of the Audit Committee

AUDITORS' REPORT

To the Shareholders of
NOVA Corporation of Alberta

We have examined the consolidated balance sheet of NOVA Corporation of Alberta as at December 31, 1989 and 1988 and the consolidated statements of income, reinvested earnings and cash flows for each of the years in the three-year period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for each of the years in the three year period ended December 31, 1989 in accordance with accounting principles generally accepted in Canada applied, after giving retroactive effect to the change in method of accounting for oil and gas assets as explained in Note 1 to the consolidated financial statements, on a consistent basis.

Ernst & Young

Calgary, Canada
February 16, 1990

Chartered Accountants

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31	1989	1988	1987
	(millions of dollars except for per share data)		
REVENUE	$4,840	$3,941	$2,322
OPERATING COSTS AND EXPENSES			
Operating expenses	3,678	2,709	1,616
Depreciation and depletion	341	254	178
	4,019	2,963	1,794
OPERATING INCOME	821	978	528
OTHER INCOME (DEDUCTIONS)			
Interest expense (Note 7)	(470)	(346)	(243)
Allowance for funds used during construction	13	6	2
Equity in earnings (losses) of affiliates	(22)	19	(2)
Gain (loss) on investments (Note 4)	(4)	(5)	39
Miscellaneous income and other (deductions)	(30)	(15)	(13)
	(513)	(341)	(217)
INCOME BEFORE INCOME TAXES AND INTEREST OF OTHERS IN INCOME OF SUBSIDIARIES	308	637	311
Income taxes (Note 12)	(107)	(225)	(74)
Interest of others in income of subsidiaries	(15)	(16)	(12)
NET INCOME	186	396	225
Less preferred share dividend entitlement	18	22	49
NET INCOME TO COMMON SHAREHOLDERS	$ 168	$ 374	$ 176
AVERAGE COMMON SHARES OUTSTANDING (Millions)	261	229	185
NET INCOME PER COMMON SHARE			
Basic	$ 0.64	$ 1.63	$ 0.95
Fully diluted	$ 0.63	$ 1.54	$ 0.88

See accompanying summary of accounting policies and notes to consolidated financial statements

December 31	1989	1988
Assets	(millions of dollars)	
CURRENT ASSETS		
Cash	$ 43	$ 102
Receivables (Note 2)	575	868
Inventories (Note 3)	448	491
	1,066	1,461
INVESTMENTS AND OTHER ASSETS (Notes 1 and 4)	1,071	963
PLANT, PROPERTY AND EQUIPMENT (Note 5)	7,177	7,135
Less accumulated depreciation and depletion	1,412	1,436
	5,765	5,699
	$7,902	$8,123

December 31	1989	1988
Liabilities and Common Shareholders' Equity	(millions of dollars)	
CURRENT LIABILITIES		
Bank loans (Note 7)	$ 268	$ 215
Accounts payable and accrued liabilities (Note 6)	783	768
Long-term debt instalments due within one year (Note 7)	108	85
	1,159	1,068
LONG-TERM DEBT (Note 7)		
Cost-of-service	1,756	1,702
Non-cost-of-service	1,896	2,517
	3,652	4,219
OTHER DEFERRED CREDITS (Note 8)	528	517
INTEREST OF OTHERS IN SUBSIDIARIES	–	248
PREFERRED SHARES–REDEEMABLE (Note 9)	204	216
CONVERTIBLE DEBENTURES AND COMMON SHAREHOLDERS' EQUITY		
Convertible debentures (Note 10)	150	150
Common shareholders' equity		
Common shares and warrants (Note 11)	1,617	1,158
Cumulative translation adjustment	30	11
Reinvested earnings	562	536
	2,359	1,855
CONTINGENCIES AND COMMITMENTS (Note 17)		
	$7,902	$8,123

On behalf of the Board:

J R Blair Director

W G Wilson Director

See accompanying summary of accounting policies and notes to consolidated financial statements

CONSOLIDATED STATEMENT OF REINVESTED EARNINGS

Year Ended December 31	1989	1988	1987
			(millions of dollars)
BEGINNING OF YEAR			
As previously reported	$ 655	$ 357	$ 77
Adjustment for the cumulative effect of the change in accounting policy (Note 1)	(119)	(91)	(137)
As restated	536	266	(60)
Net income	186	396	225
Loss on preferred shares redeemed or purchased for cancellation	—	(5)	—
Transfer from contributed surplus*	—	—	227
	722	657	392
Less dividends			
Preferred shares	18	22	49
Common shares	142	99	77
	160	121	126
END OF YEAR	$ 562	$ 536	$ 266

*In 1987, pursuant to a resolution of its Board of Directors and in conjunction with the reorganization of its share capital, the Corporation transferred the balance in the contributed surplus account of $227 million to reinvested earnings.

See accompanying summary of accounting policies and notes to consolidated financial statements

Year Ended December 31	1989	1988	1987
OPERATING ACTIVITIES			(millions of dollars)
Net income	$ 186	$ 396	$ 225
Depreciation and depletion	341	254	178
Deferred income taxes	71	201	67
Interest of others in income of subsidiaries	15	16	12
Equity in (earnings) losses of affiliates	22	(19)	2
Loss (gain) on investments	4	5	(39)
Other	(39)	10	33
From operations	600	863	478
Changes in non-cash working capital (Note 13)	196	(25)	(82)
	796	838	396
INVESTMENT ACTIVITIES			
Proceeds on sale of investments	143	86	359
Plant, property and equipment additions	(736)	(439)	(200)
Purchase of affiliates (Note 15)	(92)	(926)	(72)
Deconsolidation of subsidiaries (Note 4)	(88)	—	—
Purchase of the interest of others in subsidiary	—	—	(215)
Other assets and long-term investments	(34)	(174)	(27)
Changes in non-cash working capital (Note 13)	99	(10)	8
	(708)	(1,463)	(147)
FINANCING ACTIVITIES			
Common shares issued	454	384	31
Convertible debentures issued	—	150	—
Long-term debt additions	441	1,646	218
Long-term debt repaid	(742)	(726)	(118)
Preferred shares of subsidiaries redeemed	(240)	(591)	(136)
Preferred shares purchased for cancellation	(11)	(119)	(79)
Dividends—to shareholders of the Corporation	(160)	(121)	(126)
—to other shareholders of partially owned subsidiaries	(15)	(15)	(8)
Changes in non-cash working capital (Note 13)	126	45	(5)
	(147)	653	(223)
INCREASE (DECREASE) IN CASH	(59)	28	26
CASH AT BEGINNING OF YEAR	102	74	48
CASH AT END OF YEAR	$ 43	$ 102	$ 74

See accompanying summary of accounting policies and notes to consolidated financial statements

The consolidated financial statements have been prepared on the historical cost basis in accordance with accounting principles generally accepted in Canada and conform in all material respects with International Accounting Standards. All dollar figures used in the consolidated financial statements are reported in Canadian dollars unless otherwise indicated. The significant accounting policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of NOVA Corporation of Alberta (the "Corporation" or "NOVA"), its subsidiaries and the proportionate share of assets, liabilities, revenues and expenses of certain of its pipeline investments.

Cost of service

Pipeline and some operations in the petrochemicals division are subject to cost-of-service agreements. Such agreements, as approved by governmental or regulatory bodies, provide for the recovery of reasonable and necessary operating expenses, cost of feedstock and fuel, depreciation, amortization, income and other taxes, net foreign exchange gains and losses in respect of debt service and an assured rate of return on investment.

Foreign currency translation

Foreign operations which are considered financially and operationally independent have been translated to Canadian dollars using the year-end rate of exchange (the "current rate") for assets and liabilities and average rates for the year for revenues and expenses. Gains or losses resulting from these translation adjustments are deferred in a separate component of common shareholders' equity (the "Cumulative Translation Adjustment" account) until there is a realized reduction of the investment in the foreign operation.

Unless specifically hedged, foreign denominated long-term monetary items (principally long-term debt) of Canadian operations are translated at the current rate of exchange. For foreign denominated long-term monetary items of cost-of-service operations, the exchange differential is recoverable from customers and is reported as a reduction or addition in the associated long-term monetary item. The unrealized translation gains or losses related to non-cost-of-service long-term monetary items are deferred and amortized over the remaining lives.

Inventories

Inventories are carried at the lower of cost determined on a first-in, first-out basis and net realizable value.

Investments

The Corporation accounts for its investments in affiliates and certain joint ventures by the equity method. Under this method, the investment is carried at cost plus the related share of undistributed earnings less the amortization of the excess of the purchase price over the net book value at date of acquisition. Other investments are carried at cost. Investments held for sale are recorded at the lower of net realizable value and carrying value.

Plant, property and equipment

Plant, property and equipment are carried at cost and additions include related financing costs during major plant construction.

The Corporation's investment in exploration and development activities in the petroleum business is accounted for under the successful efforts method of accounting (see Note 1). The initial acquisition cost of oil and gas properties and the cost of drilling and equipping development wells and successful exploratory wells are capitalized. The costs of exploration wells classified as unsuccessful are charged to expense at the time of abandonment. All other exploration expenditures, including geological and geophysical costs and annual rentals on exploratory acreage, are charged to expense as incurred.

Depreciation and depletion

Plant and equipment are depreciated on the straight line basis at annual rates varying from 2% to 33% which rates are designed to write these assets off over their estimated useful lives.

For oil and gas operations, the acquisition cost of proved properties is amortized on the unit of production method using proved reserves. Successful exploratory wells and all development wells together with related equipment are depleted and depreciated on the unit-of-production method using proved developed reserves. The cost of non-producing acreage is amortized based on past experience and other relevant factors which might impair the cost.

Allowance for funds used during construction

For pipeline and some operations in the petrochemicals division, a return on capital invested in new plant under construction is recoverable from customers and is included in income.

Income taxes

The deferral method of tax allocation accounting is followed in respect of all income except for pipeline and some operations in the petrochemicals division which are subject to cost-of-service agreements. Under this method, provision is made for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs for income tax purposes in excess of depreciation and depletion provided in the accounts. The agreements for certain cost-of-service operations provide for the recovery of income taxes on the taxes payable method. The income tax provision recorded for these operations represents only the income taxes deemed to be currently payable and recoverable under the billing mechanism in place. Investment tax credits are recorded as a reduction in the cost of the related asset.

Pension plans

The cost of pension benefits earned by employees is determined using the projected benefit method prorated on service and is charged to expense as services are rendered in all operations except for those which are subject to cost-of-service agreements. The cost of pension benefits reflects management's best estimates of the expected investment yields, salary escalations, mortality rates, terminations and the age at which members will retire. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions, are amortized on a straight-line basis over the estimated average remaining service lives of the employee groups. The adjusted market value of pension plan assets is determined based on a 4 year moving average of pension plan asset market values.

The agreements for certain cost-of-service operations provide for the recovery of pension costs on the basis of cash contributions. The pension expense for these operations represents only contributions made to the pension plans during the year and therefore recoverable under the billing mechanism in place.

Net income per common share

Basic net income per common share is calculated using the weighted average number of common shares outstanding during the respective year and net income after provision for preferred share dividend entitlement. The calculation of net income per common share on a fully diluted basis assumes conversion of all securities and exercise of all common share purchase warrants or options if such action would result in dilution of net income per common share.

Comparative figures

Certain comparative figures have been restated or reclassified to conform to the current year's financial statement presentation.

1. Change in Accounting Policy

At December 31, 1989, the Corporation retroactively changed its policy of accounting for oil and gas assets from the full cost method of accounting, whereby all costs incurred in the exploration and development of oil and gas reserves are capitalized whether productive or non-productive, to the successful efforts method of accounting as described in the Summary of Accounting Policies.

This accounting change reduced 1989 net income by $9 million (3 cents basic and fully diluted net income per common share), reduced 1988 net income by $28 million (13 cents basic and 12 cents fully diluted net income per common share) from that previously reported and increased 1987 net income by $46 million (25 cents basic and 21 cents fully diluted net income per common share) from that previously reported. Reinvested earnings and investments have been reduced by $119 million and $91 million at December 31, 1988 and 1987 respectively as a result of this accounting change.

2. Receivables

(millions of dollars)

	December 31 1989	December 31 1988
Trade	$393	$674
Other	190	205
Less allowance for doubtful accounts	(8)	(11)
	$575	$868

In 1989 the Corporation entered into agreements to sell trade receivables to certain financial institutions on a revolving basis to certain limits. Recourse to the Corporation is limited to a maximum of 10% of the amount outstanding at any point in time. At December 31, 1989 trade receivables sold under these agreements amounted to $203 million which resulted in cash proceeds of $183 million, after recourse allowance.

3. Inventories

(millions of dollars)

	December 31 1989	December 31 1988
Materials and supplies	$ 90	$ 93
Raw materials	148	166
Work in process	10	25
Finished goods	200	207
	$448	$491

4. Investments and Other Assets

	(millions of dollars)	
	December 31	
	1989	1988
Husky Oil Ltd.—43% owned (Note 1)	$ 621	$629
Other investments	142	105
Other assets	58	61
Investments held for sale	250	168
	$1,071	$963

The Corporation's indirect interest in Husky of 43% in 1989 and 1988 and 24.4% in 1987 is accounted for by the equity method.

In 1988 Husky Oil Ltd. ("Husky") acquired from NOVA 63.2% of the ordinary shares of Canterra Energy Ltd. ("Canterra") for approximately $230 million. Husky acquired all of the remaining outstanding ordinary shares of Canterra from the public for $145 million. In 1988, Husky redeemed all the outstanding Canterra debentures for $223 million, plus accrued and unpaid interest to the date of redemption. The shareholders of Husky provided Husky with an aggregate equity contribution of $400 million (with NOVA's portion being $172 million) to finance Husky's obligations in respect of the purchase of Canterra.

The following sets out summarized financial information for Husky utilizing the successful efforts method of accounting for oil and gas assets. The 1988 and 1987 information has been restated to reflect the change in accounting discussed in Note 1.

	(millions of dollars)		
	December 31		
	1989	1988	1987
Balance Sheet			
Current assets	$ 340	$ 356	$ 321
Investments and other assets	17	20	19
Plant, property and equipment (net)	2,907	3,274	1,030
Current liabilities	(298)	(328)	(227)
Long-term debt	(1,188)	(1,572)	(120)
Deferred foreign exchange	(27)	(24)	3
Deferred income taxes	(545)	(544)	(199)
Shareholders' equity	$1,206	$1,182	$ 827
Income Statement			
Revenue	$ 801	$ 604	$ 572
Operating costs and expenses	(730)	(588)	(495)
Interest expense	(104)	(39)	(13)
Gain (loss) on investments*	61	(32)	9
Income taxes	(4)	19	(22)
Net income	$ 24	$ (36)	$ 51

(millions of dollars)

	December 31		
	1989	1988	1987
Cash Flow			
Operating activities			
From operations before exploration costs	$285	$209	$232
Changes in non-cash working capital	(41)	30	(44)
	244	239	188
Investment activities			
Plant, property and equipment additions	(133)	(138)	(76)
Exploration costs	(87)	(57)	(88)
Acquisition of subsidiary company	—	(376)	—
Sale of assets	323	—	—
Other	6	34	48
	109	(537)	(116)
Financing activities			
Long-term debt (net)	(350)	(86)	(40)
Issue of common shares	—	400	—
Other	(11)	(13)	(30)
	(361)	301	(70)
Increase (decrease) in cash	$ (8)	$ 3	$ 2

*In 1989 Husky realized a gain of $61 million ($60 million after income taxes) on the sale of oil and gas properties; in 1988 Husky recorded a loss of $32 million ($16 million after income taxes) on the sale of a semi-submersible drilling rig; in 1987 Husky recorded a gain of $36 million ($26 million after income taxes) on the sale of investments and a loss of $27 million ($15 million after income taxes) on the sale of its supply vessels.

During 1989 NOVA decided to sell its investments in Novalta Resources Inc., a wholly-owned oil and gas company and in Grove Italia S.p.A., a wholly-owned valve manufacturing business in Italy and the United States, its 50% interest in Trans Québec & Maritimes Pipeline Inc. ("TQM"), which operates a pipeline in Quebec and its 50% interest in Western Star Trucks Inc., a heavy truck manufacturer. The Corporation deconsolidated these investments at December 31, 1989 and recorded the investments in the accounts at the lower of net realizable value and carrying value resulting in a charge against earnings of $17 million in respect of TQM and Western Star. This charge is included in the caption "Gain (loss) on investments" on the statement of income.

In 1989 the Corporation sold certain investments which were held for sale at December 31, 1988. The cash proceeds of $143 million equalled the carrying value of the investments, accordingly, there was no effect on net income.

5. Plant, Property and Equipment

(millions of dollars)

	December 31			
	1989			1988
	Cost	Accumulated Depreciation and Depletion	Net	Net
Petrochemicals, Plastics and Rubber	$3,939	$ 504	$3,435	$3,271
Pipelines	3,150	883	2,267	2,157
Petroleum	—	—	—	198
Other	88	25	63	73
	$7,177	$1,412	$5,765	$5,699

6. Accounts Payable and Accrued Liabilities

	(millions of dollars)	
	December 31	
	1989	1988
Accounts payable		
Trade	$317	$397
Other	56	84
	373	481
Accrued liabilities		
Interest	85	101
Other	262	145
	347	246
Income taxes payable	19	8
Dividends payable	44	33
	$783	$768

7. Long-Term Debt

			(millions of dollars)	
			December 31	
		Maturity	1989	1988
NOVA Corporation of Alberta				
Unsecured Debentures				
9-3/4%	Series 2	1990	$ 7	$ 13
9-1/4%	Series 3	1990	10	11
8%	Series 4	1991	32	33
8-1/8%	Series 5	1992	24	24
11-3/8%	Series 6	1995	36	40
17-3/4%	Series 8	1997	37	40
12-1/8%	Series 9	1993	100	100
14%	Series 10		—	100
12%	Series 11	1990	125	125
11-1/8%	Series 12	1993	50	50
11.95%	Series 13	2007	125	125
10-3/4%	Series 14	1999	100	100
11.70%	Series 15	2008	150	150
11.15%	Series 16	1994	150	—
10.95%	Series 17	1994	100	—
11.20%	Series 18	2014	150	—
10%	Series B	1996	100	100
8-3/4%	Series C ($U.S.)	1994	116	119

(millions of dollars)

		December 31	
	Maturity	1989	1988
Unsecured Term Notes			
9.65% ($U.S.)	1992	$ 40	$ 42
9.95% ($U.S.)	1995	87	89
Swiss Francs*	1996	56	140
Unsecured Bank Loans and Notes*		408	158
		2,003	1,559
Exchange differential related to cost-of-service customers		15	7
		2,018	1,566
Alberta Gas Ethylene			
Ethylene Plant I			
8-1/4% Secured Notes ($U.S.)	1998	149	170
Ethylene Plant II			
Secured Loan ($U.S.)	2004	224	247
Secured Notes			
13-3/4% Series A ($U.S.)	2004	31	37
9.85% Series B ($U.S.)	2004	26	29
Secured Bank Loan*	1991	10	7
		440	490
Exchange differential related to cost-of-service customers		23	11
		463	501
Polysar Acquisition Financing Term Credit Facility	1991	563	1,095
		1,026	1,596
NOVA Petrochemicals**			
Unsecured Loans			
Revolving Credit Facility* ($U.S.)	1990-1996	81	251
9.375% Debentures (ECU)	1993	83	83
8.25% Debentures ($U.S.)	1991	36	38
9% Debentures		—	17
Term Loans*	1990-1999	85	72
11.60% Term Loan	1992-2001	15	15
Other Unsecured Loans*	Various	41	28
		341	504
Foothills—Phase I Secured Loans*	1996	204	218
TQM (Note 4)			
First Mortgage Bonds		—	141
Secured Loan		—	6
		—	147

(millions of dollars)

	Maturity	December 31 1989	1988
Other Loans*	Various	$ 171	$ 273
		3,760	4,304
Less instalments due within one year		108	85
		$3,652	$4,219
Cost-of-service***		$1,756	$1,702
Non-cost-of-service		1,896	2,517
		$3,652	$4,219

*The interest rate is a function of generally prevailing money market interest rates, Canadian bank prime rates and London Inter Bank Offered Rates. The composite average interest rate for these loans at December 31, 1989, was approximately 11¾% (11% at December 31, 1988). Interest rate exchange agreements have been made on $145 million of the NOVA Petrochemicals Inc. unsecured loans to fix the interest rate at approximately 10% for periods ranging from 3 to 28 months (average 14 months) from December 31, 1989.

**In early 1990 Polysar's Canadian operations were reorganized and now operate under the name of NOVA Petrochemicals Inc.

***Long-term debt classified as cost-of-service debt represents the debt component of the capital structure for the rate base of the Corporation's cost-of-service operations. These operations, which are regulated by governmental or regulatory bodies, are subject to agreements under which the billing mechanism includes an assured return to provide for the repayment of such debt and the payment of interest expense. Realized foreign exchange gains or losses on such debt are also for the account of the customer.

In connection with various loans, details of security pledged and other information related to these loans, which are non-recourse to the Corporation, are provided below:

ALBERTA GAS ETHYLENE

Ethylene Plant I

The Secured Notes are secured by a first fixed and floating charge on the first ethylene plant, the ethylene pipeline and related assets and by the assignment of certain related contracts.

Ethylene Plant II

This financing is secured by charges on certain of the proceeds of the ethylene sales contracts for the second ethylene plant, charges on related performance guarantees and a first fixed charge on the second ethylene plant and certain related contracts.

Polysar Acquisition Financing

The acquisition of Polysar (see Note 15) was partially financed by a term credit facility (the "Facility") of The Alberta Gas Ethylene Company Ltd. ("Alberta Gas Ethylene"), a wholly-owned subsidiary, which was provided by a syndicate of Canadian chartered banks. The Facility bears interest at Canadian prime rate, includes U.S. dollar and bankers' acceptance borrowing options, and is to be repaid in full by January 31, 1991. Interest rate exchange agreements are in place with certain financial institutions which fix the annual interest rate on substantially all of the indebtedness under the Facility at an average rate of about 10¾% for terms ranging from 9 to 11 months. Quarterly payments under the Facility are based on a formula which requires that, in effect, Alberta Gas Ethylene applies all the income from this investment (as adjusted for non-cash items, scheduled debt repayments, interest on the Facility and capital expenditures up to $100 million annually) to service the principal repayment obligations under the Facility. Alberta Gas Ethylene and the Corporation are not required to contribute any additional amounts to service principal or interest on the Facility. The Facility is secured by the pledge of the common shares of the wholly-owned subsidiary of Alberta Gas Ethylene established to acquire the outstanding shares of Polysar, but the Facility is otherwise non-recourse to Alberta Gas Ethylene and the Corporation. The Corporation has furnished to the banks an undertaking to retain beneficial ownership of at least 51% of the common shares of Alberta Gas Ethylene while the Facility is in place.

FOOTHILLS—PHASE I

This financing is secured by the assignment of the interest of Foothills and three of its subsidiaries in certain agreements and floating charges on their respective properties and assets.

TQM (Note 4)
The First Mortgage Bonds and the secured loan are secured by a first fixed and specific charge on the TQM Pipeline system, a pledge, charge and assignment of gas transportation service contracts and gas sales agreements and a floating charge on other property.

OTHER LOANS
Other loans of $171 million in subsidiaries at December 31, 1989 ($273 million at December 31, 1988) include loans of $108 million at December 31, 1989 ($263 million at December 31, 1988) which are secured by certain assets and agreements of the subsidiaries.

SINKING FUND AND REPAYMENT REQUIREMENTS
Sinking fund and repayment requirements in respect of long-term debt for the five years following December 31, 1989, are: 1990—$108 million; 1991—$171 million; 1992—$170 million; 1993—$436 million; 1994—$511 million.

Long-term debt in the amount of $125 million at December 31, 1989, which the Corporation expects to refinance in 1990 with long-term funding, has been excluded from the long-term debt sinking fund and repayment requirements.

Long-term debt sinking fund and repayment requirements also exclude amounts related to the Polysar Acquisition Financing. Repayments on this term credit facility are based on the net income of NOVA Petrochemicals, as adjusted for certain items and, accordingly, cannot be determined at this time. The Corporation intends to refinance any balance of the term credit facility outstanding on January 31, 1991 on a long-term basis.

CURRENT BANK LOANS
Current bank loans of $268 million in subsidiaries at December 31, 1989, ($215 million at December 31, 1988) include loans of $44 million ($87 million at December 31, 1988) which are secured by certain assets and agreements of the subsidiaries.

LINES OF CREDIT
At December 31, 1989, the Corporation had committed credit facility agreements with a number of Canadian banks aggregating $1.25 billion of which about $840 million was unutilized. The credit facilities expire between 1991 and 1995. NOVA may borrow in Canadian or U.S. dollars and other freely available Euro-currencies at interest rates related to Canadian and U.S. prime rates or the London Inter Bank Offered Rate.

INTEREST EXPENSE

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Interest on long-term debt	$469	$348	$245
Interest on short-term debt	27	13	12
Interest capitalized	(5)	—	(2)
Interest income	(21)	(15)	(12)
	$470	$346	$243

8. Other Deferred Credits

(millions of dollars)

	December 31	
	1989	1988
Deferred income taxes	$436	$469
Deferred gain	44	48
Other	48	—
	$528	$517

Deferred income taxes arise from differences of a timing nature between income for accounting purposes and taxable income in the jurisdictions in which the Corporation and its subsidiaries operate. The principal timing difference relates to the deductions for tax purposes, in respect of plant, property and equipment, in excess of amounts currently charged to operations.

In some cost-of-service operations the Corporation recovers in current revenues only taxes payable and not deferred taxes. The unrecorded deferred income taxes related to these operations at December 31, 1989 amounted to $338 million ($296 million at December 31, 1988).

A gain realized from the sale and leaseback of the Corporation's head office building in 1985 has been deferred and is being credited to income over the term of the lease.

In 1989 the Corporation provided for additional costs related to the rationalization of its Polysar investment (see Note 15). The long term portion of this provision was $48 million.

9. Preferred Shares—Redeemable

(a) Authorized

Unlimited number of cumulative first, second and junior preferred shares without par value.

100,000,000 subordinated junior preferred shares without par value.

(b) Issued and outstanding

	(number of shares)			(millions of dollars)		
	December 31					
	1989	1988	1987	1989	1988	1987
Related to Cost-of-Service Operations						
First preferred shares						
4-3/4% Series C	—	—	42,071	$ —	$ —	$ 4
7-3/4%	575,395	635,571	650,871	14	16	16
9-3/4%	640,082	730,105	780,573	16	18	20
9.76%	923,899	1,096,952	1,196,778	23	28	30
7.60%	2,021,200	2,160,166	2,211,400	51	54	55
				104	116	125
Related to Non-Cost-of-Service Operations						
First preferred shares						
11.24%	—	—	4,000,000	—	—	100
9-1/8%	3,997,700	3,997,700	3,997,700	100	100	100
Second preferred shares						
6-3/8%	—	—	150,733	—	—	4
				100	100	204
				$204	$216	$329

(c) Commentary
The following is a summary of material characteristics of the issued and outstanding preferred shares:

Preferred Share Issue	Stock Exchange Symbol	Annual Dividend Per Share	Redemption Features	Sinking Fund and Purchase Fund Requirements(1)
7-3/4%	E	$1.94	at $25.50 per share on or before May 15, 1994, and at $25.25 thereafter	purchase fund of $750,000 annually for shares outstanding, at the lowest prices in the opinion of the Corporation such shares are obtainable, at a price not in excess of $25.00 per share; the purchase fund is cumulative to a maximum of $1,500,000 in any calendar year
9-3/4%	F	$2.44	at $25.00 per share	cumulative sinking fund obligation of 64,000 shares annually at a price of $25.00 per share on May 15 of each year
9.76%	G	$2.44	at $25.00 per share	cumulative sinking fund obligation of 96,000 shares annually at a price of $25.00 per share on November 15 of each year
7.60%	H	$1.90	at $25.00 per share	purchase fund of 90,000 shares annually at a price not in excess of $25.00 per share(2)
9-1/8%(3)	O	$2.28	at $25.00 per share on or after February 15, 1990; retractable on February 15, 1995, at $25.00 per share	purchase 3% of the shares outstanding annually, commencing February 16, 1995, at a price not in excess of $25.00 per share(3)

(1) The sinking and purchase fund requirements at prices not in excess of the stated price per share plus accrued and unpaid dividends, if any, and the expenses related to the purchase. In addition to the cumulative mandatory sinking funds, the Corporation may call for redemption and redeem annually, through the operation of non-cumulative optional sinking funds, 48,000 9-3/4% Preferred Shares and 72,000 9.76% Preferred Shares at $25.00 plus accrued and unpaid dividends.

The purchase requirements are approximately $7 million a year for the five years following December 31, 1989.

(2) Notwithstanding all reasonable efforts by the Corporation, as the Corporation in its sole discretion shall determine, to the extent that the Corporation is unable to purchase an aggregate of 90,000 7.60% Preferred Shares in any calendar year the Corporation's obligation to purchase shares with respect to such calendar year will be extinguished.

(3) Commencing with the May 15, 1990 quarterly dividend payment, the quarterly dividend payment on the 9⅛% Preferred Shares will be equal to one-quarter of 70% of the average of the Canadian prime interest rate in effect on each day during the three calendar months ending on the last day of the calendar month immediately preceding the dividend payment date for which the determination is being made multiplied by $25.00.

Notwithstanding all reasonable efforts by the Corporation, as the Corporation in its sole discretion shall determine, to the extent that the Corporation is unable to purchase the required number of 9⅛% Preferred Shares in any 12 month period the Corporation's obligation to purchase shares with respect to such 12 month period will be extinguished.

(d) Purchases
The Corporation purchased for redemption or cancellation 462,218 shares in 1989, 4,409,632 shares in 1988 and 3,101,211 shares in 1987.

10. Convertible Debentures
The Convertible Debentures, which are unsecured and mature on February 15, 2008, pay a minimum interest rate of 6-1/4%. They are convertible, at the holder's option, until February 15, 2008, into common shares of the Corporation at an

initial conversion price of $10.70 per share, subject to adjustment in certain events, which equates to 14,018,692 common shares. The debentures are redeemable at par after February 15, 1993, and at any time prior to this date, at 105% of par if at least 85% of the original principal amount of the debentures has been converted.

The Convertible Debentures have been reported under the heading "Convertible Debentures and Common Shareholders' Equity" on the balance sheet. At its option at maturity, the Corporation may issue common shares in respect of the principal amount of the outstanding debentures at then prevailing market prices. The Corporation anticipates that the Convertible Debentures will ultimately be converted into common shares.

11. Common Shares and Warrants

(a) Authorized

Unlimited number of voting common shares without par value.

5,000,000 warrants.

(b) issued and outstanding

	December 31 (number of shares and warrants)			(millions of dollars)		
	1989	1988	1987	1989	1988	1987
Common Shares	298,704,149	245,322,668	211,483,734	$1,615	$1,156	$ 771
Warrants	118,655	132,025	254,950	2	2	4
				$1,617	$1,158	$ 775

(c) Common shares issued

Changes in the common share capital for the three years ended December 31, 1989 are summarized as follows:

	Number of Shares	Common Share Capital (millions of dollars)
December 31, 1986	141,839,334	$ 264
For cash under the Dividend Reinvestment and Share Purchase Plan	2,475,270	21
On conversion of–		
6,712,368 6-1/2% Preferred Shares	19,617,432	168
10,081,621 12% Preferred Shares	34,993,228	252
On exercise of 3,687,365 Warrants	11,062,095	55
For cash on exercise of stock options (at prices ranging from $4.85 to $8.75)	1,496,375	11
	69,644,400	507
December 31, 1987	211,483,734	771

		(millions of dollars)
	Number of Shares	Common Share Capital
For cash under the Dividend Reinvestment and Share Purchase Plan	465,703	$ 5
On exercise of 122,925 Warrants	368,775	2
For purchase of Polysar (Note 15)	31,909,056	372
For purchase of affiliate	50,000	—
For cash on exercise of stock options (at prices ranging from $4.85 to $10.375)	1,045,400	6
	33,838,934	385
December 31, 1988	245,322,668	1,156
For cash under rights offering	52,127,748	449
For cash under the Dividend Reinvestment and Share Purchase Plan	620,823	6
On exercise of 13,370 Warrants	40,110	—
For cash on exercise of stock options (at prices ranging from $4.85 to $11.625)	592,800	4
	53,381,481	459
December 31, 1989	298,704,149	$1,615

In September 1989, the Corporation completed an offering of rights for 52.1 million common shares. The proceeds were used to reduce long-term debt and to redeem $240 million of term preferred shares of a subsidiary held by certain Canadian banks.

(d) Common shares reserved for future issue

		(number of shares)
	December 31	
	1989	1988
Under the Dividend Reinvestment and Share Purchase Plan	5,008,180	5,629,286
For exercise of Convertible Debentures	14,018,692	14,018,692
For exercise of warrants	355,965	396,075
Under the Incentive Stock Option Plan (1982), options are outstanding to officers and employees to purchase 8,949,350 common shares at prices ranging from $5.85 to $12.67 per share (7,278,075 shares at December 31, 1988, at prices ranging from $4.85 to $11.75 per share) with expiration dates between 1990 to 1996, and 4,571,600 common shares are reserved but unallocated (2,177,525 shares at December 31, 1988)	13,520,950	9,455,600
	32,903,787	29,499,653

(e) Common share dividends
Common share dividends paid to shareholders of record amounted to $142 million or 50 cents per share in 1989, $99 million or 42 cents per share in 1988 and $77 million or 40 cents per share in 1987.

(f) Warrants
The Warrants were issued in 1986 at a price of $15.00 per Warrant. Each Warrant entitles the holder at his option to obtain on exercise three common shares at any time before July 31, 1996, or either one no par value first preferred share or one no par value second preferred share from August 1, 1991 to July 31, 1996. The Corporation may purchase for cancellation any or all of the Warrants outstanding in the market.

12. Income Taxes

For pipeline and certain operations in the petrochemicals division, charges to customers are based on cost-of-service agreements. Since income taxes related to these operations are a component of the charges, the billing for such income taxes on either a taxes payable or tax allocation basis does not affect net income.

Income tax expense varies from the amounts that would be computed by applying the Canadian federal and provincial income tax rates to income before income taxes and interest of others in income of subsidiaries as shown in the following table:

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Income before income taxes and interest of others in income of subsidiaries	$308	$637	$311
Add (deduct)			
Cost-of-service activities			
Petrochemicals division	(45)	(57)	(67)
Pipelines	(139)	(160)	(186)
Equity in losses (earnings) of affiliates	22	(19)	2
Loss (gain) on investments	4	5	(39)
	$150	$406	$ 21
Effective Canadian tax rate	43.8%	47.4%	50.6%
Calculated income tax expense	$ 66	$192	$ 11
Add (deduct) adjustments to income taxes resulting from–			
Manufacturing and processing tax credits	(4)	(14)	–
Earnings from foreign subsidiaries with lower effective tax rates	(31)	(15)	(6)
Non-allowable depreciation and depletion	21	11	1
Utilization of losses for tax purposes	(1)	(14)	(36)
Net tax credits on earnings from petroleum operations	(2)	(2)	(2)
Other	5	(10)	(4)
	54	148	(36)
Add income taxes billed under cost-of-service contracts	53	77	110
Income tax expense	$107	$225	$ 74
Current income taxes	$ 36	$ 24	$ 7
Deferred income taxes	71	201	67
Income tax expense	$107	$225	$ 74

Deferred income taxes in each of the three years arose from differences of a timing nature between income for accounting purposes and taxable income in the jurisdictions in which the Corporation and its subsidiaries operate. The principal timing difference relates to the deductions for tax purposes, in respect of plant, property and equipment, in excess of amounts currently charged to operations.

In some cost-of-service operations the Corporation recovers in current revenues only taxes payable and not deferred taxes. Accordingly, the above provision for income taxes excludes deferred income taxes of $26 million in 1989, $20 million in 1988 and $12 million in 1987. These deferred income taxes relate principally to the deduction for tax purposes, in respect of plant, property and equipment, in excess of amounts charged to operations.

13. Changes in Non-Cash Working Capital

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Funds on deposit	$ —	$ —	$138
Receivables	293	(454)	(107)
Inventories	43	(374)	(6)
Assets held for sale	—	—	359
Bank loans	53	143	(5)
16-1/4% Unsecured debentures	—	—	(138)
Accounts payable and accrued liabilities	15	391	24
Changes in non-cash working capital	404	(294)	265
Reclassification and other items not having a cash effect			
Non-cash working capital acquired on purchase of affiliates	—	329	—
Cash proceeds on partial disposition of the Husky investment	—	—	(359)
Other items	17	(25)	15
Changes in non-cash working capital having a cash effect	$421	$ 10	$ (79)

These changes relate to the following activities:

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Operating activities	$196	$(25)	$(82)
Investment activities	99	(10)	8
Financing activities	126	45	(5)
	$421	$ 10	$(79)

14. Pension Plans

The Corporation has pension plans covering substantially all employees. Pensions at retirement are related to years of service and remuneration during the last years of employment. Actuarial reports are prepared annually by independent actuaries for accounting and funding purposes.

In the years 1987 to 1989 the assumed future rates of return on assets of the plans averaged 7% to 8%, the discount rates used to determine the estimated projected benefit obligations of the plans averaged 7% to 8% and the assumed long-term salary and wage, including merit, escalation rates averaged 6% to 7%.

Net pension expense consisted of the following:

	(millions of dollars)		
	Year Ended December 31		
	1989	1988	1987
Current service costs	$23	$15	$11
Interest cost on projected benefit obligations	30	19	8
Estimated return on assets	(35)	(21)	(9)
Net total of other components	(1)	(1)	(1)
	17	12	9
Less amounts recoverable under cost-of-service contracts	(6)	(6)	(5)
Net pension expense	$11	$ 6	$ 4

The status of the pension plans is as follows:

	(millions of dollars)		
	December 31		
	1989	1988	1987
Estimated obligations			
Projected benefits based on service to date and present remuneration	$326	$287	$ 78
Additional amounts related to projected salary and wage increases	117	101	59
Total projected benefit obligations	443	388	137
Assets available at adjusted market value	486	441	158
Excess of assets over projected benefit obligations	$ 43	$ 53	$ 21

15. Acquisition of Affiliates

ACQUISITION OF POLYSAR ENERGY & CHEMICAL CORPORATION

In 1988, NOVA completed the acquisition of Polysar Energy & Chemical Corporation ("Polysar") and thereby acquired its wholly-owned subsidiary Polysar Limited. In early 1990 Polysar Limited was reorganized and now operates under the name NOVA Petrochemicals Inc. The term "Polysar" used herein refers to Polysar Energy & Chemical Corporation, Polysar Limited or NOVA Petrochemicals Inc. and its subsidiaries as the context may require.

The acquisition of Polysar has been accounted for by the purchase method and NOVA's consolidated financial statements for the period ended December 31, 1988 include the effect of 100% ownership of Polysar from July 1, 1988, the approximate date from which NOVA, for accounting purposes, effectively controlled Polysar. NOVA has recorded equity earnings in Polysar from the period prior to July 1, 1988, based on its ownership during that period. The financing for the acquisition is discussed in Note 7.

The net assets of Polysar at assigned values, and details of the consideration paid for Polysar were as follows:

	(millions of dollars)
Plant, property and equipment	$2,266
Working capital	353
Investments and other assets	606
	3,225

	(millions of dollars)
Long-term debt	$ (806)
Deferred income taxes	(125)
Interest of others in subsidiaries	(279)
Preferred shares	(591)
	$1,424
Consideration	
Cash	$ 925
Common shares of NOVA	372
	1,297
Other net investment items	127
	$1,424

In 1989, the Corporation completed a review of its Polysar investment and determined that additional costs related to the rationalization of the various Polysar businesses should be provided as part of the acquisition. This provision for additional costs, which amounted to $186 million, after related income taxes of $72 million, was applied to plant, property and equipment. This increased the total consideration to $1.6 billion.

The following table summarizes the unaudited pro forma condensed consolidated results of operations of NOVA as if the acquisition of Polysar had taken place at the beginning of the respective periods and is after giving retroactive effect to the change in accounting policy (see Note 1). The results are not necessarily indicative of what would have occurred had the Polysar acquisition been consummated as of January 1, 1987 or 1988, or of future operations of the combined companies. The results are based on the purchase accounting adjustments recognized in consolidating Polysar and reflect the consideration of $1.6 billion as if it were outstanding from the beginning of each period.

(millions of dollars except for per share data)	Year Ended December 31 1988	1987
Revenue	$5,178	$4,425
Operating income	$1,245	$ 750
Net income	$ 457	$ 175
Net income per common share		
Basic	$ 1.78	$ 0.58
Fully diluted	$ 1.68	$ 0.56

ACQUISITION OF ALBERTA GAS CHEMICALS LTD.

NOVA acquired the common and preferred shares of Alberta Gas Chemicals Ltd. (AGCL) not previously owned by NOVA, for $40 million in 1988. As a result of this transaction, AGCL became a wholly-owned subsidiary of NOVA (previously 50 percent owned). The acquisition of AGCL has been accounted for by the purchase method and NOVA's consolidated financial statements include the results of AGCL from August 1, 1988. The acquisition of AGCL was financed through existing long-term lines of credit.

16. Proportionate Consolidation of Certain of the Corporation's Investments

The Corporation has proportionately consolidated certain of its pipeline investments. Prior to July 1, 1988, the Corporation also proportionately consolidated certain investments in the petrochemicals division; however, with the acquisition of Polysar these investments were no longer considered material and accordingly the method of accounting was changed to the equity method. The reduction in assets and liabilities at December 31, 1989 is principally due to the deconsolidation of the investment in TQM which is held for sale (see Note 4). The components of the Corporation's consolidated balance sheet and consolidated statement of income relating to its share of the activities of these investments are shown below:

(millions of dollars)

	December 31		Year Ended December 31	
	Assets	Liabilities	Revenue	Operating Costs and Expenses
1989	$553	$385	$140	$72
1988	664	477	154	57
1987	835	566	198	98

17. Contingencies and Commitments

(a) The Corporation leases office space, data processing and transportation equipment under various operating leases. The future minimum lease payments, net of recoveries under cost-of-service operations and sub-leases, are approximately $49 million in 1990, $46 million in 1991, $39 million in 1992, $31 million in 1993 and an aggregate of $148 million in subsequent years.

(b) The agreement for the sale and leaseback of the Corporation's head office building provides that, on or after January 1, 1995, the Corporation offer to purchase the property at the expiration of the lease for $157 million.

(c) Various lawsuits and claims are pending by and against the Corporation. It is the opinion of management that final determination of these claims will not materially affect the financial position or operating results of the Corporation.

18. Segmented Information

(a) Financial information by business segment

The management of the Corporation has determined that the following are the principal business segments of the Corporation:

Petrochemicals, Plastics and Rubber*	—production, transportation and marketing activities for various petrochemicals, plastics and rubber products.
Pipelines	—transportation of natural gas by pipeline.
Gas Marketing	—marketing of natural gas.
Petroleum	—exploration, development, production, refining, processing and marketing activities for crude oil, natural gas, natural gas liquids and sulphur; principally through the investment in Husky.
Other Businesses	—design, development, manufacture and marketing of various products primarily for use in the resource and transportation industries and the marketing of consulting activities relating to NOVA's core businesses.

*In 1989 the Corporation reorganized this segment into three divisions—the Petrochemicals Division; the Plastics Division and the Rubber Division.

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Revenue			
Petrochemicals, Plastics and Rubber	$3,366	$2,472	$1,021
Pipelines	658	627	623
Gas Marketing	775	832	675
Petroleum	36	29	28
Other Businesses	131	112	125
	4,966	4,072	2,472
Less intersegment revenue			
Pipelines	120	121	131
Gas Marketing	—	1	11
Petroleum	6	9	8
	126	131	150
	$4,840	$3,941	$2,322
Operating income			
Petrochemicals, Plastics and Rubber	$ 511	$ 681	$ 203
Pipelines	288	286	316
Gas Marketing	5	5	4
Petroleum	3	1	—
Other Businesses	14	5	5
	$ 821	$ 978	$ 528
Equity in earnings (losses) of affiliates			
Petrochemicals, Plastics and Rubber	$ 6	$ 41	$ 3
Petroleum (Note 1)	(21)	(21)	7
Other Businesses	(7)	(1)	(12)
	$ (22)	$ 19	$ (2)
Identifiable assets			
Petrochemicals, Plastics and Rubber	$4,343	$4,544	$1,195
Pipelines	2,367	2,247	2,129
Gas Marketing	159	111	103
Petroleum	621	843	662
Other Businesses	412	378	506
	$7,902	$8,123	$4,595
Plant, property and equipment additions			
Petrochemicals, Plastics and Rubber	$ 317	$ 145	$ 85
Pipelines	401	242	85
Petroleum	11	51	16
Other Businesses	7	1	14
	$ 736	$ 439	$ 200

	(millions of dollars)		
	Year Ended December 31		
	1989	1988	1987
Depreciation and depletion			
Petrochemicals, Plastics and Rubber	$ 215	$ 135	$ 62
Pipelines	104	97	95
Gas Marketing	1	1	1
Petroleum	18	17	14
Other Businesses	3	4	6
	$ 341	$ 254	$ 178

(b) Financial information by geographic area based on location of the manufacturing facilities

	(millions of dollars)		
	Year Ended December 31		
	1989	1988	1987
Revenue			
Canada	$3,423	$2,990	$2,124
United States	921	638	119
Europe and other	496	313	79
	$4,840	$3,941	$2,322
Operating Income			
Canada	$ 673	$ 884	$ 511
United States	58	61	13
Europe and other	90	33	4
	$ 821	$ 978	$ 528
Identifiable assets			
Canada	$7,129	$7,266	$4,351
United States	374	463	131
Europe and other	399	394	113
	$7,902	$8,123	$4,595

(c) Financial information on cost-of-service/non-cost-of-service operations

	(millions of dollars)		
	Year Ended December 31		
	1989	1988	1987
Revenue			
Cost-of-service	$ 873	$ 884	$ 891
Non-cost-of-service	3,967	3,057	1,431
	$4,840	$3,941	$2,322
Operating income			
Cost-of-service	$ 384	$ 393	$ 439
Non-cost-of-service	437	585	89
	$ 821	$ 978	$ 528

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Contribution to net income			
Cost-of-service			
Operating income	$ 384	$ 393	$ 439
Interest expense	(201)	(182)	(188)
Allowance for funds used during construction	13	6	2
Equity in earnings of affiliates	9	3	—
Income taxes	(53)	(77)	(110)
	152	143	143
Non-cost-of-service			
Operating income	437	585	89
Interest expense	(269)	(164)	(55)
Equity in earnings (losses) of affiliates	(31)	16	(2)
Gain (loss) on investments	(4)	(5)	39
Miscellaneous income and other (deductions)	(30)	(15)	(13)
Income taxes	(54)	(148)	36
Interest of others in income of subsidiaries	(15)	(16)	(12)
	34	253	82
Net income	$ 186	$ 396	$ 225
Identifiable assets			
Cost-of-service	$2,896	$2,769	$2,663
Non-cost-of-service	5,006	5,354	1,932
	$7,902	$8,123	$4,595
Plant, property and equipment additions			
Cost-of-service	$ 425	$ 286	$ 85
Non-cost-of-service	311	153	115
	$ 736	$ 439	$ 200
Depreciation			
Cost-of-service	$ 157	$ 143	$ 143
Non-cost-of-service	184	111	35
	$ 341	$ 254	$ 178

(d) Export sales

Export sales from the Corporation's Canadian operations amounted to the following:

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
United States			
Natural gas	$ 640	$ 696	$ 567
Other products	850	520	272
	1,490	1,216	839
Other	480	254	89
	$1,970	$1,470	$ 928

19. Reconciliation to Accounting Principles Generally Accepted in the United States of America

The consolidated financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian basis") which parallel accounting principles generally accepted in the United States ("U.S. basis") in most areas. The following reconciliations reflect the differences in these accounting principles, where applicable, as required by the Securities and Exchange Commission in the United States (the "S.E.C.").

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
Net income in accordance with the Canadian basis (a)	$ 186	$ 396	$ 225
Add (deduct) adjustments for:			
Foreign currency translation (b)	4	67	(11)
Disposal of investments (c)	—	14	—
Other	1	(6)	—
Net income in accordance with U.S. basis	191	471	214
Less preferred share dividend entitlement	18	22	49
Net income to common shareholders in accordance with U.S. basis	$ 173	$ 449	$ 165
Net income per common share in accordance with U.S. basis			
—Primary	$0.65	$1.84	$0.88
—Fully diluted	$0.65	$1.84	$0.84
Reinvested earnings in accordance with U.S. basis (a) (d)	$ 538	$ 507	$ 162

(a) In December 1989, the Corporation retroactively changed its policy of accounting for oil and gas assets from the full cost method to the successful efforts method of accounting (see Note 1). The successful efforts adjustment reflects the application of the successful efforts accounting rules as prescribed by the S.E.C.

As a result of this change, net income in accordance with the U.S. basis of accounting increased by $59 million (23 cents primary and fully diluted) from that previously reported in 1988 and increased by $13 million (7 cents primary and 6 cents fully diluted) from that previously reported in 1987. Reinvested earnings in accordance with the U.S. basis of accounting have been reduced by $22 million and $81 million at December 31, 1988 and 1987 respectively as a result of this change. Had the Corporation continued to utilize the full cost method of accounting, it would have reported a loss of $6 million (9 cents primary and fully diluted) under the U.S. basis of accounting for 1989. This loss includes a $210 million ceiling test write-down on oil and gas assets as required under United States accounting principles.

(b) United States accounting principles require that long-term debt payable in foreign currencies be translated at the rates of exchange prevailing on the balance sheet date with the resulting translation gains and losses to be included in the determination of net income for the period.

(c) Adjustments to reported net income from the Canadian to the U.S. basis of accounting change the carrying value of certain investments. As a result the amount of the gain or loss on disposal of these investments is different under the two bases of accounting in the particular year in which the transaction occurs.

(d) Reinvested earnings in accordance with the U.S. basis of accounting reflects the cumulative effect of adjustments to the Corporation's earnings to December 31, 1989, for significant differences between the Canadian and United States bases of accounting, principally foreign currency translation.

NOVA's financial results and its capital structure are affected by two fundamentally different ways of conducting business and earning income: cost-of-service operations and non-cost-of-service operations. For detailed financial information relating to NOVA's cost-of-service and non-cost-of-service operations, see Note 18(c) to the consolidated financial statements.

NOVA's principal cost-of-service operations are its pipeline businesses and its Joffre, Alberta ethylene operations. These businesses, which are regulated by various governmental or regulatory bodies, operate under billing mechanisms which provide for the recovery of reasonable and necessary operating expenses, costs of feedstock and fuel, depreciation, amortization, income and other taxes, net foreign exchange gains and losses in respect of debt service and an assured rate of return on the investment. For details on NOVA's pipeline investments and return on its pipelines and Joffre ethylene operations, see Cost-of-Service Business in the Financial Review.

In summary, the income contribution is entirely dependent on the level of investment and the return on that investment which is subject to approval by regulatory authorities. In addition, the billing mechanism provides an assured cash flow for repayment of principal and payment of interest on debt incurred to finance the investment base.

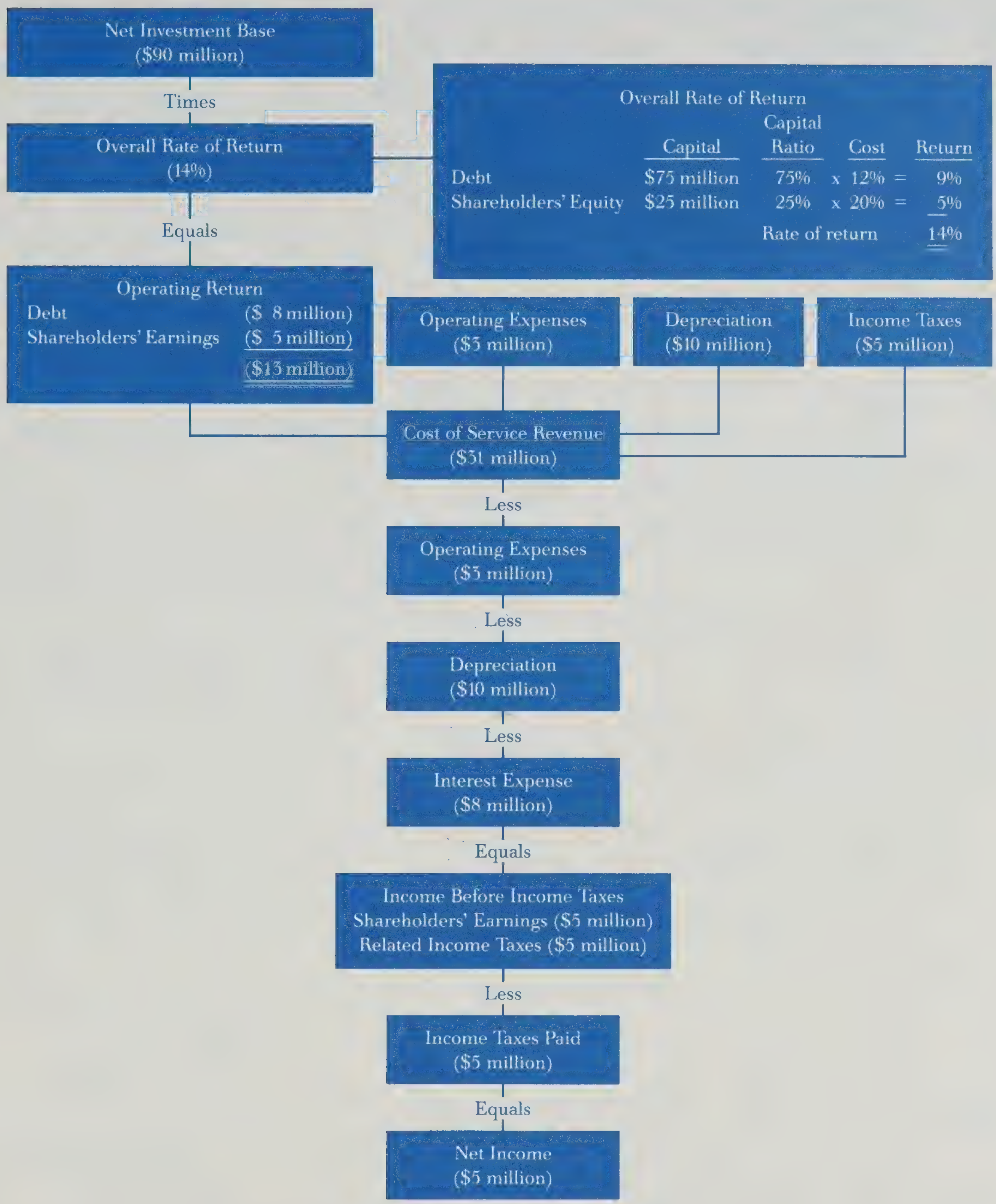
To illustrate how these cost-of-service activities impact the net income of the Corporation, the following example is provided.

The example, which is based on an after tax return to common shareholders of 20%, shows how the shareholders' equity component of the rate of return flows through to the "bottom line" of NOVA's income statement. In determining the cost-of-service connected with these activities, debt and shareholders' equity components are combined and the rate of return percentage determined. This percentage is then applied to the net investment base (similar to total net assets). The result— operating return—is combined with the operating expenses, depreciation and income taxes to yield cost-of-service revenue. The specified deductions are then made to determine net income.

How this works can be shown in a diagram. The numbers used are hypothetical, and the following assumptions are made:

1.	Investment Base	$100 million
2.	Depreciation, based on a 10 year life	$ 10 million
3.	Net Investment Base	$ 90 million
4.	Capital Structure	
	Debt	$ 75 million
	Common Shareholders	$ 25 million
5.	Cost of Debt	12%
6.	Return to Common Shareholders (After Tax)	20%
7.	Operating Expenses	$ 3 million
8.	Income Taxes Paid	$ 5 million

As the illustration shows, cost-of-service provides the necessary revenue to meet all operating expenses, to pay interest on debt, and recover, through depreciation, the original investment in assets. As well, it provides the common shareholders with an appropriate return on their investment.


Net Investment Base
($90 million)
Times
Overall Rate of Return
(14%)
Equals
Operating Return
Debt ($ 8 million)
Shareholders' Earnings ($ 5 million)
($13 million)
Overall Rate of Return
Capital Ratio Cost Return
Debt $75 million 75% x 12% = 9%
Shareholders' Equity $25 million 25% x 20% = 5%
Rate of return 14%
Operating Expenses
($3 million)
Depreciation
($10 million)
Income Taxes
($5 million)
Cost of Service Revenue
($31 million)
Less
Operating Expenses
($3 million)
Less
Depreciation
($10 million)
Less
Interest Expense
($8 million)
Equals
Income Before Income Taxes
Shareholders' Earnings ($5 million)
Related Income Taxes ($5 million)
Less
Income Taxes Paid
($5 million)
Equals
Net Income
($5 million)

Summarized Quarterly Financial Information(1)

(millions of dollars except for share data)

Three Months Ended	March 31		June 30		September 30		December 31	
	1989	1988	1989	1988	1989	1988	1989	1988
Revenue	$ 1,297	716	1,209	624	1,088	1,238	1,246	1,363
Operating income	$ 320	162	252	174	126	314	123	328
Net income (loss)	$ 129	78	76	84	7	121	(26)	113
Net income (loss) to common shareholders	$ 124	70	72	80	2	116	(30)	108
Average common shares (millions)	245	212	245	212	252	244	298	245
Net income per common share(3)								
Basic	$ 0.51	0.33	0.29	0.38	0.01	0.48	(0.10)	0.44
Fully diluted	$ 0.48	0.31	0.28	0.35	0.01	0.45	(0.10)	0.43
Market price per common share								
Toronto Stock Exchange								
High	$14	12-1/8	12-1/4	14-3/4	10-7/8	14-3/4	9-1/2	12-7/8
Low	$11-1/4	8-3/4	9-3/4	9-3/4	8-5/8	11-1/4	8-3/8	10-1/4
New York Stock Exchange ($U.S.)(2)								
High	$11-3/4	—	10-1/4	12-1/8	9-1/4	12-1/4	8	10-5/8
Low	$ 9-1/2	—	8-1/8	9-1/2	7-3/8	9-3/8	7-1/8	8-1/4
Dividends paid per common share	$ 0.11	0.10	0.13	0.10	0.13	0.11	0.13	0.11

(1) The summarized quarterly financial information has been restated to reflect the change in accounting policy (see Note 1 to consolidated financial statements).

(2) NOVA was listed on the New York Stock Exchange on June 13, 1988.

(3) The net income per common share is calculated based on the average shares outstanding during each period. As a result the individual quarters do not add to the total for the year.

Summarized Financial Information on Principal Segments

(millions of dollars)

	Petrochemicals, Plastics and Rubber 1989	1988	1987	Pipelines 1989	1988	1987
Balance Sheet						
Current assets	$ 734	$1,018	$ 223	$ 90	$ 78	$ 106
Investments and other assets	174	255	—	10	12	13
Plant, property & equipment (net)	3,435	3,271	972	2,267	2,157	2,010
	4,343	4,544	1,195	2,367	2,247	2,129
Current liabilities	811	604	173	32	88	73
Long-term debt*						
Cost-of-service	405	429	464	1,351	1,273	1,174
Non-cost-of-service	1,030	1,776	132	—	—	—
Other deferred credits	369	299	(23)	117	108	105
	2,615	3,108	746	1,500	1,469	1,352
Capital investment	$1,728	$1,436	$ 449	$ 867	$ 778	$ 777
Income Statement						
Revenue	$3,366	$2,472	$1,021	$ 658	$ 627	$ 623
Operating costs and expenses						
Operating expenses	2,640	1,656	756	266	244	212
Depreciation	215	135	62	104	97	95
	2,855	1,791	818	370	341	307
Operating Income	$ 511	$ 681	$ 203	$ 288	$ 286	$ 316
Cash Flow						
Operating activities						
From operations	$ 439	$ 684	$ 189	$ 206	$ 193	$ 216
Changes in non-cash working capital items	154	(62)	(61)	(10)	4	5
	593	622	128	196	197	221
Investment activities						
Plant, property and equipment additions	(317)	(145)	(85)	(401)	(242)	(85)
Other	111	46	(9)	(30)	32	—
	(206)	(99)	(94)	(431)	(210)	(85)
Cash flow before financing activities	$ 387	$ 523	$ 34	$ (235)	$ (13)	$ 136

*Excludes any allocation of NOVA's corporate long-term debt.

Supplemental Oil and Gas Information

A. HUSKY OIL LTD.

The following tables provide information on Husky's landholdings and reserves.

Landholdings

Husky's developed and undeveloped acreage at December 31, 1989 is summarized below. The following table sets forth all of Husky's landholdings, not only that attributable to NOVA's 43% equity interest in Husky:

(thousands of acres)

	Developed(1)		Undeveloped(1)			
	Leases		Leases		Reservations, Permits, Licenses and Other Rights(2)	
	Gross(3)	Net(4)	Gross(3)	Net(4)	Gross(3)	Net(4)
Canada						
Western Canada						
Alberta	2,729	1,112	1,949	1,203	671	458
Saskatchewan	361	303	578	548	74	49
British Columbia	138	44	309	160	93	50
	3,228	1,459	2,836	1,911	838	557
Frontier Areas						
Newfoundland					581	97
Nova Scotia					200	31
Beaufort Sea					17	1
Labrador Sea					97	23
Northwest Territories					73	18
Arctic Islands					15	4
					983	174
	3,228	1,459	2,836	1,911	1,821	731
International						
Libya					5,132	1,702
Papua New Guinea					1,871	468
Senegal					1,807	536
Indonesia					4,419	1,163
					13,229	3,869

(1) Husky's interest in gross landholdings is subject to royalties and other non-working interests. Net landholdings are based on the percentage interest owned in gross landholdings without allowance for production payments or special limitations which may restrict Husky's working interests. Not included are 649 acres in Alberta, Saskatchewan and British Columbia in which Husky owns overriding royalty interests.

(2) The nature of Husky's rights under certain reservations, permits, gas licenses and options is such that, except in certain special circumstances, only approximately 50% of the landholdings could be converted to lease.

(3) The number of gross acres is the total number of acres in which an interest is owned.

(4) The number of net acres is the sum of the fractional working interests owned in the gross acres, expressed as whole numbers.

Reserves

Husky's crude oil, natural gas liquids, natural gas and sulphur reserves are located in the provinces of Alberta, Saskatchewan and British Columbia. Husky estimates its gross and net proved and probable crude oil and natural gas liquids, natural gas and sulphur reserves as at December 31, 1989, 1988 and 1987 were as summarized below. The following tables set forth all of Husky's reserves, not only that attributable to NOVA's 43% equity interest in Husky:

(thousands of barrels)

	Crude Oil and Natural Gas Liquids					
	1989		1988		1987	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Proved(3)						
Developed(4)	212,590	181,020	199,700	165,750	95,740	85,300
Undeveloped(4)	36,990	32,480	19,400	16,100	—	—
	249,580	213,500	219,100	181,850	95,740	85,300
Probable(5)	49,660	42,640	53,900	47,800	193,390	176,760
	299,240	256,140	273,000	229,650	289,130	262,060

(millions of cubic feet)

	Natural Gas					
	1989		1988		1987	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Proved(3)						
Developed(4)	1,260,570	1,055,160	1,349,850	1,097,550	369,320	322,890
Undeveloped(4)	311,480	264,730	213,150	176,200	—	—
	1,572,050	1,319,890	1,563,000	1,273,750	369,320	322,890
Probable(5)	321,570	268,670	282,200	235,800	175,230	152,660
	1,893,620	1,588,560	1,845,200	1,509,550	544,550	475,550

(thousands of long tons)

	Sulphur					
	1989		1988		1987	
	Gross(1)	Net(2)	Gross(1)	Net(2)	Gross(1)	Net(2)
Proved(3)						
Developed(4)	7,580	6,760	9,780	8,890	460	400
Undeveloped(4)	1,300	1,150	1,210	990	—	—
	8,880	7,910	10,990	9,880	460	400
Probable(5)	600	500	790	710	880	740
	9,480	8,410	11,780	10,590	1,340	1,140

(1) Gross reserves are those attributable to Husky's interest before deduction of royalties.

(2) Net reserves are determined by deducting royalties from gross reserves.

(3) Proved crude oil and natural gas reserves are estimated quantities which are, according to geological and engineering information and economic conditions, recoverable with a high degree of certainty from known pools at commercial rates under present depletion methods and current conditions, prices and costs.

(4) Proved developed reserves are estimated to be recoverable through existing wells. Proved undeveloped reserves are estimated to exist in proved reservoirs which will be recovered from wells to be drilled in the future.

(5) Probable reserves are estimated quantities interpreted to be commercially recoverable, but which cannot be realistically considered proven at the present time.

B. FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) STATEMENT 69

The following information has been included to comply with the United States Securities and Exchange Commission regulations and is presented in accordance with the Financial Accounting Standards Board (FASB) Statement 69. Information with respect to Novalta Resources Inc., a wholly-owned subsidiary, has been excluded as this investment is being held for sale (see Note 4 to consolidated financial statements).

Results of Oil and Gas Operations

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
NOVA's proportionate interest in results of oil and gas operations of equity accounted investee—Husky Oil Ltd.	$25	$ (6)	$10

The aforementioned excludes corporate overhead, interest expense and other operating costs which are not directly related to producing activities.

Capitalized Costs

(millions of dollars)

	Year Ended December 31	
	1989	1988
NOVA's proportionate interest in net capitalized costs of equity accounted investee—Husky Oil Ltd.	$1,109	$1,301

Costs Incurred During the Year

(millions of dollars)

	Year Ended December 31		
	1989	1988	1987
NOVA's proportionate interest in costs of property acquisition, exploration and development of equity accounted investee—Husky Oil Ltd.	$ 67	$1,064	$ 31

Estimated Quantities of Proved Oil and Gas Reserves

Crude oil, including natural gas liquids, is expressed in thousands of barrels. A barrel represents a stock tank barrel equivalent to 42 U.S. gallons or 35 imperial gallons. Natural gas is expressed in millions of cubic feet measured at 60 degrees F and 14.65 psia.

Volumes represent the net reserves after deduction of royalties, reversionary interests, and net profit interests owned by others.

	Oil (mmbls)	Gas (mmcf)
NOVA's proportionate interest in proved developed reserves of equity accounted investee —Husky Oil Ltd.		
1987	36,252	137,228
1988	71,273	471,947
1989	77,839	453,719

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following future net revenue information should be interpreted with considerable caution for the following reasons:

1. Actual future cash flows will differ from future net cash flows presented in that:

(a) Future cash flows will be derived not only from proved reserves but also from probable and potential reserves which may ultimately become proved.

(b) Future, rather than current year, costs and prices will apply.

(c) Future economic, regulatory and operating conditions are subject to change.

2. The increase in present value does not represent cash available. Actual cash flows will be realized over the producing life of the reserves.

3. The effect of income taxes does not consider other corporate investments and as such represents a stand-alone impact which may be overstated.

Therefore the information presented should not be construed as being the fair value of the oil and gas reserves.

(millions of dollars)	December 31 1989	1988	1987
NOVA's proportionate interest in standardized measure of discounted future net cash flows related to proved reserves of equity accounted investee—Husky Oil Ltd.	$492	$480	$190

Future net cash flows were computed using year-end prices and costs and year-end statutory tax rates (adjusted for permanent differences) that relate to existing proved oil and gas reserves in which Husky has an interest. A discount rate of 10% was used as required by regulation.

FIVE YEAR FINANCIAL REVIEW(1)

	1989	1988(2)	1987	1986(3)	1985
	(millions of dollars, except for common share amounts)				
Operating Results					
Revenue	$ 4,840	3,941	2,322	2,681	3,347
Operating Income	$ 821	978	528	558	622
Income before extraordinary items	$ 186	396	225	134	110
Net income (loss)	$ 186	396	225	134	(106)
Net income (loss) to common shareholders	$ 168	374	176	50	(192)
Total Assets	$ 7,902	8,123	4,595	4,626	5,776
Capitalization					
Long-term debt—cost-of-service	$ 1,821	1,745	1,675	1,648	1,686
—non-cost-of-service	$ 1,939	2,559	760	813	1,018
Preferred shares—cost-of-service	$ 104	116	125	194	205
—non-cost-of-service	$ 100	100	204	633	657
Common equity(4)	$ 2,359	1,855	1,212	512	392
Total capitalization	$ 6,323	6,375	3,976	3,800	3,958
Cash Flow Data					
From operations	$ 600	863	478	526	530
Spending on plant, property and equipment	$ 736	439	200	305	308
Capital issued—long-term debt	$ 441	1,646	218	100	124
—common and preferred equity	$ 454	534(4)	31	98(4)	125
Dividends paid—preferred shareholders	$ 18	22	49	84	87
—common shareholders	$ 142	99	77	55	51
Common Share Statistics					
Net income (loss) per share					
—Basic	$ 0.64	1.63	0.95	0.37	(1.50)
—Fully diluted	$ 0.63	1.54	0.88	0.36	(1.50)
Dividends paid per share	$ 0.50	0.42	0.40	0.40	0.40
Outstanding—year end (millions)	299	245	211	142	131
—average (millions)	261	229	185	135	128
Common equity per share at year end(5)	$ 7.54	7.14	5.36	3.33	2.99
Market prices (TSE)—high-low	$14-8⅜	14¾-8¾	11½-5⅝	7¼-4.35	7⅝-5½
Ratios					
Common shareholder					
Return on average common equity	% 8.0	24.4	20.4	11.1	*
Dividend payout	% 84.5	26.5	43.8	*	*
Dividend yield (year-end market price)	% 5.8	3.5	4.0	6.8	5.6
Capital					
Long-term debt to common equity	1.6:1	2.3:1	2.0:1	4.8:1	6.9:1
Net Income (Loss) in Accordance with U.S. Accounting Principles					
Net Income (loss)	$ 191	471	214	108	(145)
Net Income (loss) to common shareholders	$ 173	449	165	24	(231)
Net Income (loss) per common share					
—Primary	$ 0.65	1.84	0.88	0.17	(1.80)
—Fully Diluted	$ 0.65	1.84	0.84	0.17	(1.80)

*Not comparable

(1) Years prior to 1989 have been restated for the change in accounting policy for oil and gas assets—see Note 1 to consolidated financial statements.

(2) Acquisition of Polysar Energy & Chemical Corporation—see Note 15 to consolidated financial statements.

(3) Ownership in Husky Oil Ltd. was reduced to below 50% and the investment was deconsolidated.

(4) Includes convertible debentures and warrants.

(5) Calculation includes the effect from conversion of the convertible debentures and warrants.

Board of Directors

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Calgary, Alberta
(Petrochemicals Consulting)

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Vice Chairman of the Corporation;
Chairman, Century Sales & Service Limited
Edmonton, Alberta
(Industrial Tools and Fasteners Distribution)

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Chairman, Foothills Pipe Lines Ltd.
and Pan-Alberta Gas Ltd.

Daryl K. Seaman
Chairman, Bow Valley Industries Ltd.
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(Natural Resource Services, Exploration
and Development)

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Executive Vice President and
Chief Financial Officer of the Corporation

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Chairman and Chief Executive Officer

H.J. Sanders Pearson
Vice Chairman of the Board

James H. Butler
President

William G. Wilson
Executive Vice President and
Chief Financial Officer

G. Firman Bentley
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Computer Information Services

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Assistant Secretary and
Secretary to the Board

Robert J. Main
Assistant Treasurer

Thomas G. Milne
Assistant Treasurer

Principal Divisions, Subsidiaries and Affiliates

PETROCHEMICALS, PLASTICS AND RUBBER

Petrochemicals Division (100%)

Plastics Division (100%)

Rubber Division (100%)

PIPELINES & GAS MARKETING

Alberta Gas Transmission Division (100%)

Foothills Pipe Lines Ltd. (50%)

Pan-Alberta Gas Ltd. (50.005%)

OTHER BUSINESSES

Husky Oil Ltd. (43%)

Novacorp International Consulting Inc. (100%)

Solicitors

Howard, Mackie, Calgary, Alberta

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